AFRICA DAY

Mission Directors' Conference

October 7, 2003
Washington DC

Africa Day
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Washington, DC

Objective: To discuss opportunities and challenges to achieving the Africa Bureau's vision, and to constructively consider new approaches to development in Africa.

Time	*Session subject*	*Speaker(s)*	*Moderator/ Rapporteur*	*Associated documents*
Tuesday, October 7				
7:30	Continental breakfast			
Session 1 8:15-9:30	Welcome and opening remarks. Introductions of mission directors and AFR senior staff.		Connie Newman	Participants list
Session 2 9:30-12:30	Development Challenges: What Does and Does Not Work	Robert Klitgaard, RAND David Gompert, RAND	Connie Newman/ Steve Giddings	Case study materials
(10:30-10:45)	Break			
Lunch 12:30-1:45				
Session 3 2:00-3:15	10-minute presentations of MCA progress and service issues by pillar bureaus.	Anne Peterson, AA/GH Emmy Simmons, AA/EGAT Roger Winter, AA/DCHA Steve Brent, PPC	Keith Brown/Pat Jordan	
3:15-3:30	Break			
Session 4 3:30-6:00	In-house discussions on issues that affect achieving our vision: strategic planning and resource planning.		Connie Newman/ Herschelle Challenor	Bureau vision statement

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- Clean, Lean and Able: A Strategy for Defense Development by David Gompert, Olga Oliker and Anga Timilsina
- Indonesia – A Case of "Defense Underdevelopment" by David Gompert
- Goals for Indonesian Military Reform and Elements of a U.S. Engagement Strategy

Tab 3 – Session 3
- Bio for Anne Peterson
- Framework for Emergency Plan for AIDS Relief brainstorming sessions (USG use only)
- Bio for Emmy Simmons
- New improved EGAT support to missions (cable)
- Bio for Roger Winter
- Bio for Steve Brent
- Current MCA Legislative Status
- MCA Authorization Bills
- Description and Rationale of the MCA Qualification Indicators
- MCA Data on the Web

Tab 4 – Session 4
Strategic Planning
- U.S Foreign Aid: Meeting the Challenges of the Twenty-first Century (Draft, September, 2003) (Internal USAID working document)
- Draft: U.S. Foreign Assistance: Effectiveness in the National Interest (Internal USAID working document)
- Draft: The Changing Paradigm of Development Assistance to Africa by Carla Komich for AFR/DP
- FY 2005 BPBS: Bureau for Africa Budget Justification: Description of the Bureau Program Resource Allocation Process

Resource Planning

- AFR USDH Overseas Staffing Allocations
- FY 2004 Budget Request (as of 1/13/03)
- FY 2005 BPBS Request – June 5 version revised for $20M increase in DG and $75M for Sudan plus-up – Final BPBS submission
- Final FY 2003 Allocation of Initiative Funding
- Final FY 2003 HIV/AIDS and MTCT Levels
- FY 2002-05 Budget Planning by sector with Sudan additive
- Guidance on the Definition and Use of Child Survival and Health Programs Fund

Tab 5 – Documents of Interest

- Sub-Saharan Africa Recent Economic Data
- Workshop on Donor Practices
- Draft: Harmonization of Donor Procedures
- Sector-wide approaches [SWAps] and civil society by Joan Atherton
- NEPAD Commentary: The First Wave
- NEPAD: The African Peer Review Mechanism
- Results and Partnership: in Support of NEPAD: Submitted to the DAC as a USG Room Paper for the High Level Meeting 28 March, 2003

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Session 1

Title: Welcome and introductions

Time: 8:15-9:30

Moderator: Connie Newman

AA/AFR Connie Newman will welcome participants, make opening remarks, and introduce AFR/Washington senior staff.

Each mission director will then introduce themselves for the benefit of one another and the guest speakers for Session 2, and briefly describe their mission's work.

USAID AFRICA BUREAU DAY
October 7, 2003
Participants

AFR Mission Directors and AID Reps

East Africa

1. Stephen M. Haykin	Acting Mission Director, Madagascar
2. Ray Kirkland	Mission Director, Tanzania
3. Jatinder K. Cheema	Mission Director, Eritrea
4. Anthony Gambino	Mission Director, Congo
5. William Hammink	Mission Director, Ethiopia
6. Henderson Patrick	Mission Director, Rwanda
7. Kiert Toh	Mission Director, Kenya
8. Andrew Sisson	Mission Director, REDSO (Kenya)
9. Vicki Moore	Mission Director, Uganda
10. Michael Farbman	Mission Director-Designate, Madagascar
11. Allan Reed	AID Representative, Sudan

West Africa

12. Pamela A. White	Mission Director, Mali
13. Edward W. Birgells	Mission Director, Liberia
14. Olivier Carduner	Mission Director, Senegal
15. Sharon L. Cromer	Mission Director, Ghana
16. D. Annette Adams	Mission Director, Guinea
17. Dawn Liberi	Mission Director, Nigeria

18.Harry Lightfoot	Mission Director, Benin
19. Carleene H. Dei	Mission Director, WARP (Ghana)

Southern Africa

20. Dirk W. Dijkerman	Mission Director, South Africa
21. Roger Yochelson	Mission Director, Malawi
22. Diana L. Swain	Mission Director, Namibia
23. Robert G. Hellyer	Mission Director, Angola
24. Jay L. Knott	Mission Director, Mozambique
25. Dawn Thomas	Acting Mission Director, RCSA (Botswana)
26. Paul Weisenfeld	Mission Director, Zimbabwe
27. Helen Gunther	Acting Mission Director, Zambia

AFR Senior Staff

28. Constance Berry Newman	AA/AFR
29. Keith Brown	DAA/AFR
30. Thomas Woods	DAA/AFR
31. Carol Grigsby	Director, Office of West African Affairs
32. Steve Wisecarver	Director, Office of East African Affairs
33. Patrick Fleuret	Director, Office of Southern African Affairs
34. Jay Smith	Director, Office of Development Planning
35. Lucretia Taylor	Director, Office of Sustainable Development
36. Merle Mukai	Acting Director, Office of Administrative Management
38. Mary Alice Kleinjan	Assistant General Counsel
39. Herschelle Challenor	Office of the Assistant Administrator

40. Wade Warren	Deputy Director, AFR/SD
41. Tom O'Keefe	Deputy Director, AFR/DP
42. Gordon Bertolin	Chief, Program Analysis Support, West Africa
43. John Schneider	Deputy Director, East Africa
44. Patricia Jordan	Chief, Program Analysis Support, Southern Africa
45. Steve Giddings	Chief, POSE Division, AFR/DP

Guests

Session 2

46. Robert Klitgaard	RAND
47. David Gompert	RAND

Session 3

46. Emmy Simmons	AA/EGAT
47. Anne Peterson	AA/GH
48. Roger Winter	AA/DCHA
49. Steve Brent	PPC

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Session 2

Title: Development Challenges: What does and does not work

Time: 9:30-12:30

Speakers: Robert Klitgaard, David Gompert, RAND

Moderator: Connie Newman

Objective: To present cutting-edge thinking on (a) security and development, and (b) governance and development in the context of USAID activities, bilaterally and regionally.

Topics to be discussed/questions to be answered:

--Unlike the defense community, a key principle of development is to "do no harm." USAID seeks to build local capacities for peace and institutions that foster dialogue and a capacity for conflict resolution and reconciliation. USAID seeks to design development activities that do not exacerbate existing tension that may inadvertently lead to violent conflict. This approach is encouraged across all four of USAID's pillars - (a) economic growth, agriculture, and trade, (b) health and HIV/AIDS, (c) democracy, conflict, and humanitarian assistance, and (d) public private partnerships.

--Mission directors will receive a cutting-edge presentation on conflict, in the context of the three pillar National Security Strategy that ties development, diplomacy, and defense under the umbrella of this Administration's foreign policy. Areas of potential technical collaboration for development and defense to address common goals jointly will be identified. Areas in which the defense community has developed effective, tested analytical frameworks and programs will be shared.

The speakers will present one case study that focuses on security and development, including (a) what hinders development, (b) what are the major challenges in the achievement of development goals, (c) and a discussion of the relationship between defense and development within the context of USG foreign policy.

The second case study will focus on governance and development, including (a) what hinders development, (b) what are the major challenges in the achievement of development goals, (c) and what tools are necessary to build the capacity of institutions.

Rapporteur: Steve Giddings

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Overview of Session 2

Session 2, 9:30 – 12:30

Facilitators: David Gompert, RAND Corporation
Robert Klitgaard, Dean, The RAND Graduate School

9:30 Overview of Session 2 and background briefing by Klitgaard: 15 minutes

9:45 The imaginary news story: an exercise (Klitgaard)

10 minutes to read the imaginary news story again together

Divide into breakout groups of 6 to 8 people with a facilitator and a rapporteur

10 minutes for each individual to map out a possible chain of events from "now" to "then" (not a prediction but an optimistic scenario)

25 more minutes for each breakout group to come up with a consensus scenario

10:30 Break

10:45 In plenary seating, rapporteurs from each breakout group present their scenarios

11:00 Discussion of themes and implications for action (specific countries, regional) (Klitgaard)

11:30 Security and Development: A Case Study (David Gompert)

12:30 Lunch

Robert Klitgaard

Dean, RAND Graduate School

Robert Klitgaard is the Dean of the RAND Graduate School, Santa Monica, California, where he is also the Ford Distinguished Professor of International Development and Security.

He previously served as Professor of Economics at the University of Natal, Durban; Lester Crown Professor of Economics at Yale's School of Management; and Associate Professor of Public Policy at Harvard's John F. Kennedy School of Government, where he also served half-time as Special Assistant to Harvard's President Derek Bok.

Klitgaard has been an advisor to many governments on economic strategy and institutional reform, and his consulting work and research have taken him to 30 countries in Latin America, Asia, and Africa. He has been called "the world's leading expert on governance and anti-corruption" (*The Christian Science Monitor*). He is on the faculty of the World Economic Forum, the editorial boards of the *Journal of Economic Literature* and *Theoria*, and a member of the board of the International Development Evaluation Association.

In addition to many articles, he has written seven books:

Corrupt Cities: A Practical Guide to Cure and Prevention (ICS Press and World Bank Institute, 2000; translated into Bahasa Indonesia, Chinese, French, and Spanish) (with Ronald MacLean-Abaroa and H. Lindsey Parris), including examples from around the world.

- *Adjusting to Reality: Beyond "State versus Market" in Economic Development* (ICS Press and International Center for Economic Growth, 1991; translated into Spanish and French), a study of policies to make markets work better, make governments work better, and close the economic gaps among ethnic groups.
- *Tropical Gangsters* (Basic Books, 1990; I. B. Tauris, 1991), a first-hand account of economic reform in Africa. Named by the editors of the *New York Times Book Review* as one of the six best non-fiction books of 1990. Included in New York Times' *Books of the Century*.
- *Controlling Corruption* (University of California Press, 1988); translated into Spanish [2 editions], Portuguese, Russian, Arabic, French, Chinese, and Bahasa Indonesia), a study of corruption and how to reduce it in the developing countries.
- *Elitism and Meritocracy in Developing Countries* (Johns Hopkins University Press, 1986), a comparative and analytical study of selection policies (including affirmative action) around the globe.
- *Data Analysis for Development* (Oxford University Press, 1985), how to apply statistics and econometrics to policy problems in poor countries.
- *Choosing Elites* (Basic Books, 1985), how educational elites are and should be selected in the United States. Listed in *The Harvard Guide to Influential Books*. Named one of "900 Great Books of the Western World" as compiled in 2000 by Prof. Alexander H. McIntire, Jr., of the University of Miami.

Klitgaard received A.B., M.P.P., and Ph.D. degrees from Harvard University. He is married and has four children. He speaks fluent Spanish, fair French and Portuguese, and rusty Urdu.

David Charles Gompert

Emeritus Vice President, RAND

David Gompert is currently Emeritus Vice President, RAND. He served as President of RAND Europe from 2000 to 2002, during which he was also a member of the RAND Europe Executive Board and Chairman of RAND Europe UK.

Mr. Gompert was Vice President of RAND and Director of the National Defense Research Institute from 1993 to 2000. During a leave of absence (1997-98), he was Distinguished Research Professor at the National Defense University and Visiting Professor at the United States Naval Academy.

From 1990 to 1993, Mr. Gompert served as Special Assistant to President George Bush and Senior Director for Europe and Eurasia on the National Security Council staff. He has held a number of positions at the State Department, including Deputy to the Under Secretary for Political Affairs (1982-83), Deputy Assistant Secretary for European Affairs (1981-82), Deputy Director of the Bureau of Politic-Military Affairs (1977-81), and Special Assistant to Secretary of State Henry Kissinger (1973-75).

Mr. Gompert worked in the private sector from 1983-1990. At Unisys (1989-90), he was President of the Systems Management Group and Vice President for Strategic Planning and Corporate Development. At AT&T (1983-89), he was Vice President, Civil Sales and Programs, and Director of International Market Planning.

Mr. Gompert has published on international affairs, national security policy, and information technology. His books include *Nuclear Weapons and World Politics (ed.), America and Europe: A Partnership for a new Era (co-ed.), Right Makes Might: Freedom and Power in the Information Age, Mind the Gap: A Transatlantic Revolution in Military Affairs, and Shoulder to Shoulder: The Road to US-European Military Cooperability*. He is a member of the Council on Foreign Relations, the International Institute for Strategic Studies, the Chief of Naval Operations' Executive Panel, the Foreign Policy Association, Atlantik Bruecke, the Board of Advisors of the George Marshall Center, and the Board of Advisors of the RAND Pardee Center for Long Range Global Policy and the Future Human Condition.

Mr. Gompert holds a Bachelor of Science degree in engineering from the United States Naval Academy and a Master of Public Affairs degree from the Woodrow Wilson School, Princeton University. He and his wife, Cynthia, live in Alexandria, Virginia.

The RAND Graduate School
October 7, 2003

The Remarkable Turnaround in Foreign Aid

Please read the following imaginary news story, dated October 2008. Be prepared to discuss the questions on the pages following the news story, and to consider with your colleagues how we might get from "now" to "then."

The Remarkable Turnaround in Foreign Aid

October 2008
From our correspondent

Only five years ago, foreign aid was in disarray. How things have changed.

Five years ago, research showed that foreign aid in aggregate wasn't making a difference to anything but the size of the governments receiving the aid. Others argued that *foreign aid* was as meaningless an aggregation as *health care* or *education*. "Asking 'does health care work?' would not yield an edifying answer," sniffed one professor.

The trick was to identify what kinds of aid, done how, made what kinds of difference (good and bad), to whom—and then do more of the good for those most in need. Fair enough, but who would do the identifying?

Evaluations of foreign aid were done by the organizations carrying out the foreign aid. Critics worried that key results were not transparent. For example, data on poverty were dubious. International organizations created new measures of governance and institutional development but then refused to make them public.

Governance

Governance had become a key but problematic concept. Research (and common sense) showed that foreign aid failed when governance was bad and wasn't needed when governance was good. But it was precisely in countries with bad governance where human needs were greatest.

Aid-as-usual could not improve governance, in part because of a lack of hard-headed strategies, in part because of poor indicators of success, and in part because diplomacy made it almost impossible to name names and deal with problems effectively.

"So, foreign aid did not help create the preconditions for foreign aid's success," said a former USAID official.

Five years ago, foreign aid faced another crisis. People were increasingly worried about *global public goods*, another catch phase. The term was applied to exchange rate and trade regimes, international security arrangements, climate change, global pandemics, and more. The war against terrorism brought new awareness of the global nature of the terrorist networks and perhaps also of the preconditions for terrorism.

But how could international action lead to better solutions? Many of the old institutional arrangements seemed inefficient at best, counterproductive at worst. "It's hard now to recall the sense of frustration we all felt in the face of the great global challenges of development," recalled one White House official.

Today, in 2008, the situation is different.

- We have new focal points for aid and collective action on global public goods ranging from health to finance to security.
- We have effective strategies for improving governance, as showcased in several "islands of integrity."
- We have new international mechanisms for monitoring performance. These combine quantitative indicators with effective new "peer reviews" carried out by groups of developing countries.

The results have been marked: better health, improved security, greater productivity, less corruption, and less poverty.

Reframing the Issues

How these changes occurred is the story of imaginative strategies that took advantage of changes in the international environment. USAID's Africa Bureau played a lead role in the transition.

Five years ago, the moral argument about aiding development was misplaced. Many advocates focused on input targets, such as the percentage of GDP going to foreign aid.

The first task was to redirect attention toward positive elements of change: measures of success, thwarting terrorism, global public health, grants

Talking Points

A. How might such "a turnaround in foreign aid" occur in the next five years? How?

B. Analyze the changing environment, especially in Africa. For example, how do these factors manifest themselves in your country and others in Africa that you know?

- Increased concern for the preconditions of international discontent, leading to a greater salience for developmental issues and for "failed states"
- A sense of greater fragility in the globalized economy, leading to a rethinking of trade and finance regimes.
- Increased concern for global public health.
- New mechanisms for tracking and disrupting illicit international economic transactions, such as the financing of terrorist networks.
- Recognition that "governance" is a key to development—and that aid-as-usual will not address the governance issues that constrain development in many of the neediest countries
- The emergence of better measures of governance and the institutional underpinnings of development
- The recognition by African countries that better governance is essential, including their willingness to participate in "peer monitoring"

C. Consider these possible elements of strategy for USAID in Africa.

1. Global (and regional) public goods. This will involve institutional changes and redirected spending within the advanced countries and international institutions.
   a) Emphasize global public health as a foreign policy issue
   b) Use the war on terrorism to enable new kinds of pro-development activities (and to justify some of the old ones). Use new capabilities for disrupting illicit international financing also in the fight against international organized crime and corruption, which are ingredients of failed states.
   c) Improve the international financial system
2. Focus on institutions and governance.

a) Support practical strategies that work to reduce corruption and improve the rule of law. WHAT ARE THESE POSSIBLE STRATEGIES?

b) Use new, better measures of governance and institutional performance.

   WHAT ARE THESE POSSIBLE MEASURES AND HOW MIGHT THEY BE EMPLOYED IN YOUR COUNTRY AND REGIONALLY?

c) Collaborate with peer monitoring by recipient countries (e.g., The New Partnership for Africa's Development; OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions). Develop new international mechanisms for monitoring success that combine quantitative measures and peer evaluation.

   HOW MIGHT USAID HELP IN THIS PROCESS, IN YOUR COUNTRY AND REGIONALLY?

3. Find and document success stories (countries, cities, etc.). Share them within and across countries.

4. Focus aid on places that have to be fixed (countries, cities, etc.). At the same time, exclude from aid (some) countries that refuse to address weak governance.

5. Open up product markets in rich countries.

An edited version appeared in *Finance and Development*, Vol. 37, No. 2 (June 2000)

Subverting Corruption

Robert Klitgaard[1]

"What is the problem about corruption?" asked the political scientist Colin Leys almost four decades ago. His answer—not much of a problem. Following a line that might remind one of the sociologist Robert Merton, or the policy adviser Niccolo Machiavelli, Leys argued that corruption has its functions, even its benefits. Under awful conditions, bribery and its close relatives may be socially and not just privately beneficial. The political scientist Samuel Huntington chimed in: "In terms of economic growth the only thing worse than a society with a rigid, overcentralized, dishonest bureaucracy is one with a rigid, overcentralized, honest bureaucracy."

These scholars had a point. But it's easier for us nowadays, sensitized by both passionate denunciations and econometric estimates, to reel off some of the costs. Systematic corruption distorts incentives, undermines institutions, and redistributes wealth and power to the undeserving. When corruption undermines property rights, the rule of law, and incentives to invest, economic and political development are crippled. Even Huntington pointed out that "a society in which corruption is already pervasive, however, is unlikely to be improved by more corruption."

Since Huntington wrote those words in 1968, the fight against corruption has progressed. We have experienced a first level of anti-corruption efforts, where consciousness is raised about the existence and harms of corruption. The international NGO Transparency International, founded in 1993, has spread around the world. International financial institutions such as the IMF and the World Bank have put the fight against corruption high on their agendas. Most important, in many countries there seems to be a sea change in public opinion, as elections are increasingly fought in terms of what to do about corruption.

We have progressed with a second level of anti-corruption measures, which adds systems analysis to consciousness raising. Civil service reforms are moving beyond "capacity building" to a welcome emphasis on information, incentives, and competition. Research is beginning to supplement surveys of perceptions of corruption with valuable studies of exactly where in government and corporate systems lie the vulnerabilities to corruption.

We have more to do and learn internationally about a third level of anti-corruption activities, which move from how to make systems more immune to corruption to how to subvert corrupt systems once they have become embedded. What can be done when

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[1] Dean and Ford Distinguished Professor of International Development and Security at the RAND Graduate School, Santa Monica, CA. E-mail: gaard@rgs.edu

consciousness raising and prevention have failed, when corruption has become a norm, when political will cannot be counted on?

From Normal Corruption to Systematic Corruption

Consider a real example, stripped down and made anonymous. An agency we'll call PHS is part of a country's health ministry, the part that distributes pharmaceuticals and health services to the poor. There are eligibility cards and subsidies, supply chains and special health posts, and lots of contracting and procurement. Corruption has always existed in PHS. But suddenly, things get worse.

The country's president is involved in a scandal. He may be impeached. Parliament forms a committee to investigate and judge the president. The president and his party try to influence the committee. A relative of the committee chairman is named the director of PHS. Other new appointments in PHS involve people from the same region as the committee chairman.

Procurement in PHS becomes deeply corrupted. Competitive bidding, once the norm in 90 percent of the procurement contracts, is used in less than half. The other half are declared "emergencies." They are now handled through the PHS's regional offices, and contracts are let without competition. In these regional offices, always scarce on talent and on oversight, the new leadership of PHS conflates procurement and internal auditing. In the words of one official, "Many of these people decide which firms will get the contract and then both manage the project and are responsible for auditing it."

Even when procurement remains competitive, abuses spread. For example, specifications are tailored to enhance the chances of favored suppliers. Cost overruns are approved in exchange for bribes. Finally, theft becomes widespread, and medicines disappear.

Politicization undercuts external controls. Parliament names a new director of the Supreme Audit Agency, and the president's party installs a compliant individual. The Attorney General, the president's old friend, is unwilling to pursue sensitive cases.

As the corruption in PHS grows, organizational chaos ensues. The manual of procedures is abandoned. Eligibility cards are allocated through extortion and fraud. Some files disappear, then many, so that even if investigations or audits are started there are often no records. No one is sure if contracts have been let, or if funds are available. As a result, some contractors are not paid. Delays and further rounds of corruption follow. Eventually, suppliers charge higher prices or retire from this market, leading to less competition and further opportunities for corruption and inefficiency. An honest auditor finds a PHS warehouse full of televisions, champagne glasses, and so forth.

PHS free falls into financial collapse. Health care for the poor disintegrates.

Under Normal Circumstances, Do This

What to do? At the second level of fighting corruption, a variety of measures can be taken to prevent corruption.

"Agents" (that is, public officials) are selected on the basis of competence and honesty.

Incentives are structured to reward projects and purchases with excellent results. Penalties are exacted on those who give or receive bribes.

A variety of mechanisms are used to **gather information** about the possibilities of corrupt behavior at each stage—information ranging from bidding patterns to comparative costs to the lifestyles of the individuals involved (are officials living beyond their salaries?).

Competition is encouraged.

Official **discretion** is circumscribed, for example by objective studies and clear criteria.

The **moral costs** of corrupt behavior are sometimes emphasized through codes of conduct, publicity campaigns, and the encouragement of reputations for probity by the firms involved.

But because corruption has become systematic, PHS has suffered breakdowns in all these areas.

Suddenly, key **"agents"** are selected through a political process whose purpose is to give them access to public wealth.

Their **incentives** are to make money for their political masters, and they are protected by those masters and by the president who is in the masters' debt. Less dramatically, for most officials in PHS, incentives in the form of pay have fallen far below competitive levels in the private sector, leading to a loss of qualified personnel (and to adverse selection, where those most disposed to take advantage of corruption remain). Careers in PHS are not advanced through a record of economical purchases and successful projects. Contracting firms are not punished for poor results. There are few official incentives to discover and prosecute corruption, and increasingly there are strong political pressures not to do so. The penalties for corruption are weak—ranging from black marks in the personal record to suspension—and occur only rarely.

The many possible mechanisms used to **gather information** about performance and about possible corruption are now underemployed or abandoned. Within PHS, financial and then administrative chaos has gutted record-keeping and accounting, so that information useful to investigate and control corruption is often missing.

Competition has been undercut in many ways. Instead of using a well-organized process that use technical criteria to judge bids and firms, contracting is decentralized and is subject to monopoly power plus discretion minus accountability.

Some political appointees have the **discretion** to let contracts without competition or technical reviews.

The **moral costs** of corruption diminish as systematic corruption takes hold. Honest firms find it harder to do honest business. Reputation matters less and less, and indeed phantom firms are created for corrupt purposes.

When systems are so thoroughly corrupted, there may be little if any political will. Calling for better agents, improved incentives, better information, more competition, less official discretion, and higher moral costs is well and good. But who's going to listen? Who's going to act? When corruption reaches this point, the usual anti-corruption remedies may have little traction. Now what?

The Analogy of Disease

Consider an imperfect but suggestive analogy. In some ways, corruption is like AIDS. It is a problem in every country, and especially prevalent and damaging in a few. It has aspects of a contagion. It is based on private behavior, usually consenting, which the prevailing moral code usually considers immoral. The social consequences are at many levels, including economic. Finally, the disease is difficult to combat, and it may adapt itself to efforts to defeat it.

Like AIDS, corruption has moral dimensions and is particularly prevalent in certain subcultures. What might be called the first level of reacting to both problems raises consciousness. In a number of recent books—such as *Fabricantes de Miseria* by Plinio Apuleyo Mendoza, Carlos Alberto Montaner, and Alvaro Vargas Llosa—corruption is attributed to bad attitudes regarding authority and probity. The political culture is a pernicious sort of "privatization of the State," the informal and illicit private use of government by the political class and its allies.

The cure? Moral renovation, cultural change, an elevation of consciousness. (Incidentally, this is where Colin Leys forty years ago sought a remedy. The "line of escape," he wrote, is "a nucleus of 'puritans' applying pressure for a code of ethics.") The problem with this advice is practical. We know little about how to engineer a moral renovation. Just as with AIDS, we must also work at other levels.

A second level of reacting to AIDS or to corruption emphasizes prevention: keep healthy bodies free of the disease. The anti-corruption measures described above, from selecting better agents to raising the moral costs of corruption, are derived from this approach.

Analyzing and Attacking Corrupt Systems

But what if corruption has already become embedded? When prevention fails, a third level of fighting corruption is also needed, one that goes after the disease. New questions arise, as Table 1 suggests.

Table 1
Levels Two and Three in the Fight against Corruption

	Level Two: Fighting "Ordinary" Corruption	Level Three: Fighting Systematic Corruption
Key metaphor	Controlling corruption	Subverting corruption
Medical analogy	Strengthen the body to prevent the disease from taking hold. Examples: exercise, nutrition, lifestyle.	Attack the disease itself. Examples: antibiotics, chemotherapy, surgery.
Use analysis to find out	Where healthy systems are vulnerable and how to strengthen them	Where organized corruption is itself vulnerable and how to weaken it
Some key analytical questions	How are agents selected? How is the principal-agent-client relationship structured? What are the incentives? How can discretion be clarified and circumscribed? How can accountability be enhanced? How can the moral costs be increased?	How are corrupt deals made? Kept secret? How are corrupt goods and services delivered? How are members recruited and disciplined? What "footprints" are there from all these things? How can risks and penalties be created or enhanced? How is impunity now supplied and where is it vulnerable?
Draw inspiration from	Best practice in business management; public health programs	Best practice in fighting organized crime; pathology and medicine
Key functions in the fight against corruption	Audit, systems design, incentive and personnel system, control, citizen oversight	All of these, plus undercover agents, infiltrators, turncoats and key witnesses, "dirty tricks"
Key actors in the fight against corruption	People who run the system. The "principal" (metaphorically, the people; in practice, the people in charge)	People who can influence and, if necessary, subvert the corrupt system. Citizens, professional associations, the press, business groups, one agency or level of government against systematic corruption in other agencies or levels

In addition to strengthening government institutions, the task is now to weaken corrupt institutions. This is difficult but not impossible. "To engage in corruption," law professor Philip Heymann notes, "a government official and a private party have to identify each other as potential corrupt partners, and find a way to reach an agreement, and then deliver what each has promised without being detected. Each of these steps can be extremely difficult, for in each there are vulnerabilities to detection."

The corrupt system itself should be analyzed from beginning to end. For example, how are corrupt buyers and sellers found and matched? How do they make and enforce their implicit contracts? What footprints does their illicit transaction create, and what steps do they make to cover up?

Then countermeasures should be designed. For example, how might undercover agents be introduced to the system in order to disrupt it? Who are the disaffected in the corrupt system, and how may they be induced to defect? How might corrupt contracts be exposed, undercut, or destabilized? How might disinformation be injected into the corrupt system to create false impressions, schisms, distrust, and risk?

With these questions in mind, let us return to the case of PHS. How might the corrupt coalition of the president, the congressional committee, the contractors, the political appointees, and PHS be subverted? Here are a few ideas.

- Disseminate information that the corrupt system would like to keep hidden. For example, our research in PHS easily documented the switch from 90 percent competitive bidding to 50 percent. The "emergency" contracts had been recorded, and we could readily show that most had been awarded to cronies of political appointees. Inserting this information into the public dialogue will not automatically lead to change. But exposure creates new tensions for the corrupt system and generates antibodies, which can eventually lead to change.
- Some political appointees had garnered corrupt side payments. The results were difficult but not impossible to trace. Houses, cars, and other forms of conspicuous consumption could be documented and then leaked to the press. In the 1970s a courageous leader of the Philippines' Bureau of Internal Revenue used such measures to bring down a virulent form of organized corruption in his agency.
- The prices of various goods and services could be compared with prices before the erosion of PHS, with prices in the private sector, and with prices in neighboring countries. All these comparisons would show the mark-ups that had taken place. They could provide a focal point for public outrage and the monitoring of improvement. Similar ideas were successful in Bolivia's Social Emergency Fund in the 1980s, where prices of rural works were benchmarked, and in Argentina's recent national dissemination of local prices of school lunches and of hospital supplies.
- Business groups have a collective interest in reducing corruption, even when they are virtually required to participate in corruption systems in order to survive. One can give information to, and then work with, the firms who potentially could compete in PHS's activities, as well as with associations of industry leaders, auditors, and lawyers. Pressure points can thereby be created to express outrage and to push for change.
- Organized extortion for PHS eligibility cards can be undermined by using undercover agents, confidential exit interviews, and video cameras.
- In both Italy and in New York, successful efforts against organized crime have depended on subverting the Mafia's culture of secrecy. Crucial have been such measures as using undercover agents, planting electronic surveillance, and inducing

key insiders to become state witnesses. Also, misinformation and "dirty tricks" have been used to create distrust among the Mafiosi—for example, planting false rumors that someone was a turncoat, or catalyzing animosity among various factions. Could similar steps be imagined in PHS, or more broadly in the national government?

These are interesting possibilities—but who might undertake them? The list of potential actors is long but hardly automatic. Citizens' groups, including the international NGO Transparency International. The press. Religious groups. Business groups, who realize that as a whole business loses from systematic corruption. International organizations. And, interestingly, particular people and units of government, those not yet infected with systematic corruption. Sometimes a Congressional committee can be the catalyst; other times, a Supreme Audit Authority or a Ministry of Justice or a Police Department. Even within a corrupted agency, the infection is never complete, and given the opportunity, people ranging from secretaries to technicians to long-term civil servants may be valuable sources of information about how exactly the corrupt system functions.

Ideally, third-level anti-corruption efforts will bring together all these actors in order to subvert systematic corruption.

Where Is Systematic Corruption Severe?

Systematic corruption can increase as various forms of central government control break down or recede. One example is when a state collapses in the face of unrest or post-communist trauma, being replaced in part by organized crime and corruption. Another example—less dramatic but perhaps more widespread—is what happens with the devolution of federal functions to localities and municipalities.

In a new book *Corrupt Cities*, Ronald MacLean-Abaroa, H. Lindsey Parris, and I note that around the world local governments are susceptible to systematic corruption. For better or worse, cities are accessible forms of power and wealth. Compared with national governments, municipal administrative systems are usually weaker. Pay scales for professionals are lower, leading on average to lower-quality personnel. The risks of co-optation by élites or populists are higher. In the hands of unscrupulous opportunists or idealists unable to manage, city governments can easily become the sites of petty tyrannies or systematic corruption or both.

Even in rich countries, the threats are real. The substance and style of city management are changing in ways that promise better governance but simultaneously offer more opportunities for corruption. "Many of the recent changes in local government," the Audit Commission of Great Britain asserts, "have been away from centralised controls and tight financial regimes and have increased the risks of fraud and corruption occurring." According to one estimate, in Japan provincial governments have three times more officials than the national government but produce fifteen times the reported number of corruption cases and four times the number of arrested officials. In New York City, the cost of past corruption in school construction alone is measured in the hundreds of millions of dollars. Public-private partnerships, correctly considered the wave of the future, can mutate into systematic corruption.

No wonder local corruption is a topic of increasing concern. The Chilean policy analyst

Claudio Orrego points out that "all the objectives that have been established for the reform of the municipal sector (increasing their legitimacy and democratization, increasing the efficiency and effectiveness of their services, and increasing citizen participation), can be summarized as part of this broader goal: *strengthening accountability*."

When corruption becomes systematic, as in PHS, the usual anti-corruption measures are insufficient. Not obsolete, to be sure: there will always be a need to raise consciousness about corruption's costs and to make the institutions of state and market less vulnerable to corruption. But we also need new thinking about new modes of action by new sorts of actors, in a joint effort to reveal, destabilize, and subvert corruption.

CLEAN, LEAN AND ABLE: A STRATEGY FOR DEFENSE DEVELOPMENT

BY DAVID C. GOMPERT, OLGA OLIKER, AND ANGA TIMILSINA (7/25)

INTRODUCTION

Just a decade ago, dramatic developments -- the soaring performance of emerging economies, apartheid's defeat, communism's implosion, the end of East-West rivalry -- held out the promise of a secure, free, prosperous, fair and inclusive world. There was hope that the East would democratize, the South would develop, and both would join the West in a global commonwealth of political and economic freedom. Stability, it was thought, would spread inexorably into region after region. Yet, despite some notable successes — Europe's democratic unification, above all -- today's reality falls well short of that vision.

Generally speaking, political, economic and security progress in the developing world, or South, has been discouraging since the Cold War ended. In that period, the gap in annual per capita income between rich and poor countries has grown from about $17,000 to $24,000.[1] With significant exceptions, such as parts of East Asia and Latin America, human conditions have not improved appreciably. Vast populations in Africa, the Middle East, Central Asia, and South Asia exist in destitution and desperation. Authoritarian rule, economic mismanagement, ethnic feuding, and international disputes persist, especially in undeveloped regions. Add the proliferation of dangerous weapons, the rise of religious fanaticism, and the predation of terrorist groups, and these regions are becoming not less but more hazardous to themselves and to the rest of the world, including the advanced democracies of the West and their global interests.

Locally, regionally, and globally, development – democratization, the rule of law, market creation, human capital growth, infrastructure improvement, and integration into global markets – fosters security as surely as security fosters development. Hard as it is under propitious conditions, politico-economic transition is nigh impossible for countries at war. Of the world's twenty poorest countries, nineteen are experiencing or are just emerging from armed conflict.[2] As for cause and effect, underdevelopment is to insecurity what chicken is to egg.

While there are many reasons why the heady expectations of a decade ago have not been realized, the one this issue paper confronts is the ineffective, wasteful, unaccountable, and often kleptocratic character of the defense institutions, including military services, of many developing countries. These institutions sit at the nexus of security and development, and they are capable of hurting both. The pages that follow diagnose what is wrong with the defense sectors of all too many developing countries and prescribe a holistic remedy.[3]

Too often, "underdeveloped" defense sectors -- incapable, bloated, corrupt, opaque -- endanger neighboring states, contaminate domestic politics and markets, engage in transnational crime, and even fail in their assigned mission: to provide adequate national security. Countries with militaries that detract from security, squander scarce resources, and cannot be trusted by their own leaders or citizens are countries with three strikes against them. Such consequences cannot be ignored: with the globalization of economics, interests and threats, damage to development and to security in the South can harm the West.

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[1] World Development Indicator Data Base, 2002

[2] Jane Chanaa, *Security Sector Reform: Issues, Challenges and Prospects.* Adelphi Paper 344. International Institute for Strategic Studies, London.

[3] "Defense sector" can be said to include the national defense ministry, the armed forces, and the infrastructure, institutions and industry that support them.

This, then, is the challenge of *defense development* -- otherwise known as defense-sector reform or, more broadly, security-sector reform -- for countries that are, or ought to be, going through political and economic transition. Even where patient Western help has been available, such as throughout the formerly communist East for a decade now, defense institutions often remain resistant to change.[4] The analysis that follows may seem uncharitable toward the well-intentioned policies and programs that have been aimed at overhauling dysfunctional military establishments. But there is no escaping the reality that, with some exceptions, past ideas and efforts have yielded insufficient improvement in the functioning and governance of defense establishments in transition countries, East or South.

So the authors' premise is that a better approach is needed, conceptually and in practical policies. Others may argue that defense transformation simply takes time and patience -- after all, Western countries had one or two hundred years to get it right, and some ran badly amok along the way. Maybe so. But this paper will argue that approaches to defense development to date have lacked strategic commitment, clear institutional responsibility, objective metrics and leverage. Moreover, the conceptual basis has not been critically rethought despite unimpressive progress. In any case, the security situation in much of the developing world is bad enough to warrant more *im*patience in shaping up and cleaning up defense establishments. This paper is meant to provoke a critical and urgent look at this problem and how it should be tackled.

The term "defense development" has been chosen to convey sharply that the objects of such an undertaking are the defense establishments of countries that are on -- or off -- the path of economic and political development. The term implies as well that the perspectives and methods of development may be usefully applied, with an obvious need for tailoring, to the task of bringing defense sectors up to par. It also makes clear that the aim is cumulative and permanent progress, gaining strength and irreversibility as structures, economics and politics change not only for the good but also for good.

Admittedly, post-colonial economic development has hardly been an unqualified success: The capitalist West did better in competing with the communist East than in assisting the underdeveloped South in the last half-century. (Who would have thought that defeating poverty would prove to be so much harder than defeating the Soviet Union?!) Consequently, there are heated debates within the economic development world about what works, quite apart from whether or not to address the security sector. Then why entrust to the underachieving and unsettled domain of international development the high-stakes task of helping defense sectors function better? This paper attempts to answer that question.

THE STRATEGIC CONTEXT

In the immediate aftermath of the Cold War, democratizing and integrating the states of the former Soviet bloc were top priorities of the Atlantic democracies. Because the consequences for security were clear and vital, the United States and its West European partners attacked the unprecedented, unanticipated challenge of socialism's collapse with focus, verve, and money. Their strategy of transformation called for extirpating the root-system of Soviet communism, converting Eastern societies to Western ways, and opening doors to Western markets and Western-run institutions. This effort proceeded at high speed with respect to political governance and more deliberately, but no less purposefully, where economic policy and structures were concerned. Given that the East had been functioning within a fraudulent

[4] Since 1990, roughly $726.5 million has been devoted to this end in various military assistance projects by the US Government, including International Military Education and Training, and Foreign Military Financing.

economic system, an illegitimate political system and, for many, a foreign occupation, all of which were suddenly discarded, the transformation has gone reasonably if unevenly well.

Western strategy to convert the former communist states has included dedicated efforts to reform Warsaw Pact defense establishments, out of recognition that these were pillars of conservative power in the old regime, fundamentally incompatible with democracy, economic dead-weight, and inimical to transformation in general. Admission to Western security, economic, and political groupings, above all NATO and the European Union (EU), was made contingent on transformation of Central and Eastern European national security policies and institutions, as well as on peaceful settlement of outstanding international disputes and other norms. The provisional offer of membership provided tempting bait, which the Atlantic democracies used with skill. Thus, the West has had an intense recent experience in defense transformation, albeit in the specific, indeed unique, context of rehabilitating quasi-developed European countries that jettisoned imposed communism and its military apparatus.

In the course of these same post-Cold-War years, it became obvious that the end of East-West confrontation did not mean that peace and stability would bloom throughout the developing world, which had provided battlefields, cold and hot, for the superpower struggle. From Korea, Southeast Asia, and the Indian Subcontinent to Southwest Asia, the Middle East, and Africa, insecurity has persisted and in some cases gotten worse. The end of the superpower standoff released instabilities, bottled up during the Cold War, with deep and complex roots: colonialism (and the way it ended), tribalism, border disputes, weak or illegitimate governments, opportunistic and unscrupulous leaders, feudalism, and religious fanaticism.

Generally speaking, where free markets and free politics have taken hold – in parts of Latin America and East Asia, for example - improved stability and security has followed.[5] Elsewhere, however, the lack of political and economic development has aggravated and perpetuated internal, international, and transnational strife. Even where progress had been made, reversals have occurred, the Ivory Coast, Kenya and Venezuela being current examples.

Yet the West has not mounted the same sort of strategic campaign to develop and transform the South as it had the East. Ironically, attention to the underdeveloped world even ebbed when the Cold War ended, as the motivation of blocking Soviet inroads vanished.[6] The combination of a compelling need to transform the East and a lower strategic priority on the South put, or left, development on a back burner. Thus, in the years following the end of the Cold War, the West effectively shifted roughly five billion dollars per year of foreign assistance from developing to former Soviet bloc countries.[7]

Nor has the West confronted head-on the glaring problem of corrupt, incompetent, yet often menacing military establishments in the developing world, even in the face of growing

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[5] A notable exception is Southeast Asia, where several states at one or another stage of transition (e.g., Indonesia and Philippines) are still experiencing instability, mainly due to separatism, religious strife and, lately, terrorist inroads.

[6] One of the more blatant examples was in Africa, where the end of East-West competition in Ethiopia, Somalia, Angola, and Zaire, among others, precipitated a loss of Western (not to mention Soviet) interest and resources.

[7] According to Development Assistance Committee (DAC) data, official assistance to the South has declined from an average of about $40B/year to about $35B/year, starting around 1991. This is roughly the average annual level of assistance to the former communist East starting then. The total of about $40B was roughly stable until it began to decline in recent years as aid to the East declined.

evidence that they can damage both development and security.[8] Back in the 1960s, it was theorized that military establishments could be vanguards in building modern nations.[9] This belief spurred the growth and use of security assistance as a form of development cooperation. But the effort ended badly: most such assistance went into military training and equipment, not structural reform; programs were skewed by US-Soviet competition for influence rather than development; and the defense recipients proved to be hindrances to good governance and real transformation – if anything, bolstered by the largely unconditional military aid they were getting.[10] The involvement of development agencies with armed forces was curtailed and kept to a minimum thereafter. It has taken repeated eruptions of instability and violence across the World, and especially in the South, since the end of the Cold War combined with the lack of progress toward overcoming poverty to awaken interest in the defense-development link.

Western strategists were slow to appreciate that conditions in the undeveloped world are important in the new international security environment, though for a very different reason than as fodder for great-power rivalry. The World Bank has classified forty-eight nations, mainly in Africa, Central Asia and the Middle East, as "Low Income Countries Under Stress" (LICUS) – a euphemism for not meeting the preconditions for development or even moving in the wrong direction.[11] The belief that the advanced democracies can bask in security while parts of the world deteriorate is wishful and dangerous. It is hard to imagine a clearer mandate than the LICUS report for reinvigoration of development efforts of every sort, including defense development.

The perils of the new era were shockingly revealed by the attack on the United States of 9/11/2001. The ensuing US-led efforts to combat terrorism and WMD-armed rogue states have awakened Western interest in the unstable condition of much of the developing world, especially in the arc from Northeast Asia through Southwest Asia into Africa. It is becoming more and more apparent that terrorism, weapons of mass destruction (WMD) and underdevelopment are a dangerous mix. In the words of the latest *US National Security Strategy*, "[P]overty, weak institutions, and corruption can make weak states vulnerable to terrorist networks..."[12]

Global poverty and injustice did not bring down the World Trade Center; but they have contributed to hatred, instability, and violence.[13] Underdevelopment can result in state failure, as in Somalia, Afghanistan, and several West African states, and present tempting targets for terrorists in search of haven or prey. Festering deprivation can breed political sympathy and logistical support for terrorists. There are already signs that terrorism has begun feasting on the poverty and despair of barely governable parts of Islamic sub-Saharan Africa, e.g., parts of Nigeria and Kenya. In addition, frontline states in the war on terrorism – Indonesia, Pakistan,

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[8] This contrast is evident in the respective objectives of the DoD regional centers. The Marshall Center, dealing with former Eastern countries, has a clear focus on democratic transition and defense reform, where as those dealing with the Latin America, Africa, and Asia approach the subject of internal transformation much more gingerly if at all.

[9] Samuel Huntington ...

[10] Jane Chanaa Ibid

[11] LICUS Report, World Bank, 2003

[12] The US National Security Strategy of September 2002 devotes an entire section to the need to improve assistance to developing countries as part of the effort to combat terrorism and other sources of insecurity.

[13] A rigorous analysis can be found in *Terrorism and Development: Using Social and Economic Development to Inhibit a Resurgence of Terrorism*, Kim Cragin and Peter Chalk, RAND 2003.

Egypt, Yemen, Saudi Arabia, Uzbekistan, and others – lack legitimate government and balanced development.

Looking across the Middle East, economic marginalization and indifference toward human capital development contribute to regional and global insecurity.[14] Conversely, Middle East countries engulfed in insecurity, of their own making or not, are poor candidates for political or economic progress. While some may contend – wrongly, in the authors' view – that underdevelopment in Africa matters not to Western strategic interests, there is no question that underdevelopment in the Middle East adds to present danger.

THE NEED FOR DEFENSE DEVELOPMENT

While hardly the sole cause, underdeveloped military establishments can be at the root of these security-development difficulties, owing to their failure effectively to manage national defense, their domestic political machinations, their involvement in the abuse of human rights (invariably under the banner of national security), and their siphoning-off of scarce resources, among other faults. Military establishments that do not follow a democratic model (defined later) can undermine security directly by being threatening or being unprofessional and weak, and indirectly by dashing prospects for development, which fosters security.

A strong case can be and has been made that a cure for the security-development problem must reach beyond military establishments and encompass intelligence, militias, police, presidential guards, sundry internal security and paramilitary groups, and even criminal justice systems.[15] Those responsible for internal security are often up to their waists in corruption, oppression, and politics, whereas a nation's armed forces may be above the fray – there to defend the country and the constitution against enemies foreign and domestic. Moreover, the boundary between military services and internal security apparatus is often unmarked and porous; cleaning up only one side of the boundary may cause the problem to migrate to the other. Consequently, most recent analysis and policy attention has, fairly enough, cast the net widely to capture "*security sector* reform".[16]

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[14] The US government appears to recognize this, as evidenced by its recent Middle East free-trade initiative.

[15] Jane Chanaa Ibid

[16] For example, Ball (2000) defines security sector development as the broadening of the security agenda from protecting the state or individual regimes to a peace-building agenda. The definition of security is broad and it includes conditions such as that individual citizens live in freedom, peace and safety, and participate fully in the process of governance; that they enjoy the protection of fundamental rights and have access to resources and the basic necessities of life; and, that they inhabit an environment which is not detrimental to their health.

-Ball, Nicole. "Towards a Conceptual Framework for Security Sector Reform." *Paper Prepared for the Roundtable on Security Sector Reform*, Pearson Peacekeeping Centre, November 30-December 1, 2000.

"Security sector" generally covers those institutions, which are responsible, or should be responsible, for protecting the state and communities within the state. This may include the military, paramilitary or police forces, intelligence services, and civilian structures directly responsible for oversight and administration (Ball, 1998, UK DFID, 1999; Brzoska, 2000).

-Ball, Nicole. 1998. *Spreading Good Practices in Security Sector Reform: Policy Options for the British Government*. London: Saferworld.

-Brzoska, Michael. "The Concept of Security Sector Reform", in *Security Sector Reform Brief 15*, editor Herbert Wulf. Bonn International Center For Conversion, June 2000.

Yet, there are advantages in isolating defense sectors for diagnosis and policy action, while understanding the links to and the need for reform of the rest of the security sector. Typically, the military has the strongest sheer capabilities and is thus the ultimate power arbiter, able to set the conditions, limits and direction of domestic politics. If the police or intelligence services are often instruments of a regime, the military may represent an alternative or veiled threat to it. Generals can defy or dictate to politicians the way police chiefs often cannot. Regimes that fear coups d'etat at the hands of disgruntled military officer corps may try to shower them with funds and freedoms. In most cases, more resources are tied up in, or wasted by, the military than other security services.

In addition, problems with neighboring countries can be caused, aggravated, or neglected if a military establishment acts irresponsibly or incompetently. Arms purchases and sales provide the military with opportunities for wrong choices – and for choice businesses. It is often entrusted with internal responsibilities (e.g., organized in territorial military departments) or intertwined with domestic security services. On the positive side, defense development could provide a model or magnet for wider security-sector reform. Genuinely transformed armed forces may be intolerant of untransformed police and intelligence services, not to mention militias. In sum, focused efforts to effect defense development can often help, and can hardly hurt, broader security-sector reform, provided it is understood that the need for change is indeed broader and should be coordinated.

What precisely do we mean by "defense development"? Think of it as fostering *a transparent national defense establishment, under democratic control, that can assemble and maintain appropriate military capabilities to respond proportionately and competently to legitimate national defense needs in ways that support national development, while minimizing waste and keeping out of, and out of the way of, business and government.* More simply: becoming able to meet real defense needs in a clean, lean, and able way that is open to public scrutiny and political will.

Generally speaking, successful and permanent defense development requires international attention — more bluntly, intervention -- in the form of standards, help, accountability and incentives. Defense and military establishments that divert resources or pervert politics are typically led by officers and politicians with a big stake in the status quo. To them – especially the incorrigible ones – sweeping change threatens a most agreeable way of life, and they will use their resources, clout, and cloud-cover to elude or defeat it. In many cases, political authorities within the country are too weak or too dependent on military backing to impose defense development. Sometimes there are no political authorities at all: the military rules, at least de facto. Often, political leaders are complicit in shady defense management.

For these reasons, international involvement and inducements are necessary. This will certainly raise alarms about foreign interference in sovereign matters; after all, developing-country elites have complained about the invasiveness of international development institutions in sectors less sensitive than national security.[17] But an intrusive approach is warranted, since

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-United Kingdom. Department for International Development. 1999. "Policy Statement on Security Sector Reform."Available at: http://www.dfid.gov.uk

[17] There has been something of a political and intellectual backlash against tendencies by international financial institutions to place conditions for lending not only on fulfillment of specific financial targets but also on better governance, without which, say that proponents, financial aid cannot be genuinely effective.

defense underdevelopment is potentially more harmful to international interests than any other aspect of underdevelopment.

If interested outside parties – bilateral aid providers, investors, multilateral institutions – lack confidence that a country's defense sector is clean, lean, able and transparent, resources needed for development may not and perhaps should not be made available. Given the security interests of the West and the ways defense mismanagement can defeat the purposes of economic development and thus international security, there is a case for linking foreign assistance – at least security assistance and possibly some economic assistance – to motivate serious defense development—just as development aid providers often impose economic and political conditionality, lest their help be in vain.

Recognizing the importance of economic and political development for global security, the US Government recently increased foreign assistance and set up a Millennium Challenge Account that links support to broad-based reform.[18] The approach taken is essentially to provide assistance only to countries that qualify by having crossed a threshold of sound governance and policy. This strategy should strengthen both the incentive to reform and the effectiveness of aid. An obvious extension of the US strategy, which could be emulated by the EU and others, would be to insist specifically that key defense development standards be met in order to be eligible for the Millennium Challenge Account. The logic is clear: corrupt and incompetent military establishments can harm not only the general development of the receiving state but also the interests of the giving states, whose funds could end up under some general's mattress or, worse, supporting some destabilizing or corrupt activity.

It is also useful to think of defense development as functionally comparable to development of other public sectors – at least not so different in kind that it should be divorced from the rest of the development agenda. Like development of other sectors, defense development involves large resource flows and budgetary effects, macroeconomic implications, the need for financial stringency and confidence, public administration and accountability, the utility of external expertise and support, and clear delineation of authority. Moreover, creating targets and incentives for making, tracking and sustaining needed change is as important with defense institutions as it is in other sectors undergoing development, perhaps more so given the ability of the military to resist change and political guidance. Defense development should include both *assisting with* and *insisting on* reasoned and transparent policy-making, requirements-setting, planning-programming-budgeting, expenditures, and management in defense, based on principles and methods like those used in developing other sectors.

Finally, development is, as the term suggests, about locking in and building on progress and making change organic. The history of traditional defense cooperation, even when directed toward reform, is littered with examples of back-sliding. Defense reform has tended to rely on the good intentions of this general or the fortitude of that politician, whereas development, for all its shortcomings, is geared to produce new permanent structural, economic, and behavioral conditions.

Lack of staff capabilities, of a formal mandate, and of the will to change policy have kept the World Bank and other multilateral development institutions from taking up the challenge of defense development. At the same time, the development establishment has been seized by the importance of improving governance in general if aid is to work and genuine development is to occur. In defining their principles and purposes, the international financial institutions are stressing four "commandments" of good governance: accountability, transparency, the rule of law, and participation. These would be just fine applied to defense, in that defense and military

[18] The EU's Europaid program has similar qualities, which suggests that possibility of a more effective joint US-EU development strategy.

establishments in many underdeveloped countries violate all four. It is unrealistic to expect good governance by political leaders, however legitimate, if they are up against interference and malfeasance on the part of militaries that they cannot fully control. Thus, the development community may fail to effect good governance, which it increasingly sees as the foundation of development, if defense and security are left free to defy and undermine the broader effort.

One might think that defense transformation can better be viewed as an aspect of traditional security cooperation between advanced and developing countries than as development.[19] We think otherwise. This is not to say that some instruments of security cooperation cannot advance the cause of defense development, such as through instilling better defense management, professionalism, and greater respect for civilian government. However, security cooperation has had and will continue to have a number of goals – strategic alignment, political influence, base rights, enhanced combat capabilities, arms sales, interoperability, intelligence – that may not in and of themselves foster defense development as defined here. Indeed, these other goals may compete with the goal of effecting fundamental change.

To illustrate, a defense establishment of a developing country that is willing to furnish military over-flight rights, provide host-country support for US forces, or increase its capacity for self-defense may not be one that the United States – more to the point, the US Defense Department -- will wish to see changed, let alone muscle into changing. These are not inappropriate or unimportant objectives, and security assistance is a respectable way of trying to achieve them (if not historically a particularly effective one[20]). In the short term, unreformed militaries can be convenient; their cooperation can be important; and influencing them can take precedence over replacing them. This is the case today in the way the United States is working, and perhaps must work, with military establishments for the sake of its ongoing war on terrorism in such countries as Pakistan, Indonesia and Yemen – hardly paragons of open and able defense.

Eventually, however, the damage done by such military organizations to the process of economic and political development can come back to haunt the patron in the security assistance relationship. By extension, it could be argued that security assistance should be tightly linked to a recipient's real commitment to and progress in defense development, not only to advance the larger transformation and development goals but also to ensure that the security assistance itself is effective. All else being equal, a country with a clean, lean and able defense sector is more likely to be an efficient aid recipient and a trustworthy security partner.

In any case, the goal of defense development should be clear: to shape the military establishments of developing countries in accordance with the standards to which our own defense is held. Confusing that long-term goal with the immediate aims of security cooperation will ensure that the former always takes a back seat or that the developing country's military establishment thinks its current conduct is condoned. This is yet another reason to ask whether chief responsibility for defense development might better lie with development organizations than with defense ministries.

RESULTS TO DATE

From 1990 on, the United States and the West European countries have worked assiduously to support defense-sector reform throughout the former communist bloc. Their aim has been to help these countries infuse their armed forces with competence, professional pride, and allegiance to democratic principles and elected leadership; their methods have included

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[19] By security cooperation we mean technical assistance, training, financing arms procurement, joint planning, host-country support for bases, visits, military-to-military exchanges and the like.

[20] See Stephen Walt, *The Origins of Alliances*

rhetorical encouragement, advice, professional military educational exchanges, special Defense Department regional centers, and other programs designed to build capacity for able and accountable defense. The results are decidedly mixed.[21]

Overall, defense establishments of most of the former Warsaw Pact countries remain stragglers in what has otherwise been a broad post-communist transition. Central-East European defense transformation has gone further and better than that of the former Soviet Union and cannot easily be undone. While this may be because transformation in general has been more sweeping in Eastern Europe, it is noteworthy that the East Europeans have had as an incentive a realistic but conditional chance of joining NATO and the EU, which the countries farther east have not.

Even where sluggish defense reform has not stopped the tide of wider transformation — in Poland, the Czech Republic, and Hungary, for example — civilian leadership has been frustrated in trying to break the senior military's tight grip on determining its own requirements, command slots, senior assignments and the like. Attempts to build up civilian expertise in defense ministries and parliaments have shown little progress. In less advanced cases, as this paper's look at Ukraine will show, change has been minimal. Like Ukraine, most of the states of the former Soviet Union, including those of the Caucasus and Central Asia, have made little headway in defense sector reform -- and, not coincidentally, in broader democratization -- despite major efforts by the United States and its European partners.

A vicious circle is noticeable among many of the former Soviet republics: failure to build democracy largely precludes defense development, and undeveloped defense sectors remain pillars on which the rear guards of authoritarianism rely to maintain their grip. After some success in the early post-Cold-War years, it appears that political transition, economic liberalization, and defense reform may be petering out except in Central-Eastern Europe, where integration into Western institutions helps sustain and lock in progress.

The problem in ex-communist defense transformation is not that encouragement, advice, schools, and capacity building are unhelpful but that, except in Central-Eastern Europe, these techniques have lacked enough leverage to overcome resistance. The fine values and practices imparted to officers and officials who participate in defense reform programs have little traction back home at the ministry, barracks, or officers' club as long as "the system" and "the culture" still wink at incompetence, reward malfeasance, oppose reform and co-opt or sidetrack reformers. Life in an underdeveloped defense establishment can be comfortable and lucrative for senior officers and their minions, what with an abundance of commands, job security, perks, money streams, and opportunities to dabble in business and politics. Because defense reform so far has provided neither sticks nor carrots -- apart from NATO and EU membership for a dozen or so European countries -- it has had limited impact.

In defense and in general, institutional inertia, mindset and structural rigidity can frustrate changed attitudes of individuals. As the development community knows, it takes institutional change to enable development, and it takes powerful incentives to effect institutional change.

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[21] The George Marshall Center in Garmisch has exposed hundreds of senior and junior officers and officials from Eastern Europe and Eurasia to Western defense principles and methods. Its programs are well designed and delivered. The Geneva Center for Security Policy has comparable program and numbers, and the Geneva Center for Democratic Control of the Armed Forces has provided valuable advice on security-sector institutional reform. Yet, after ten years and a throughput of thousands of students and fellows, Eastern defense establishments, especially in the former USSR, are far from developed. This is not a reflection on the quality of these programs but on the enormity of the challenge and consequences of not having leverage.

With some exceptions, defense institutions in need of development have had less incentive to make change than to resist it, especially if they know it is to expand and be permanent.

Progress with defense sectors has been even less impressive in the South than in the East, partly because there has been less Western effort and partly because there has been nothing like the tantalizing offer of NATO membership that was dangled in front of the East Europeans. As noted, traditional security assistance of the sort offered by the West to developing countries is intended not to overhaul the recipients' military establishments so much as to obtain their help, beef them up, sell them equipment, or simply win their friendship. Moreover, although the Western countries and the international development institutions they run work to modernize transportation, telecommunications, health, education, agriculture and other systems and sectors in the South, they have not been seized with a similar sense of imperative to transform lagging defense sectors, which can hinder all other development.

The expanding literature on "security sector reform" is replete with convincing diagnoses of the ills of unreformed security establishments, the effects of these ills on security and development, and desired end-states (i.e., clean, lean and able). Although the negative consequences for Western interests are understood in this literature, however, we find not enough about how to impel or motivate military establishments to shape up, little about standards and measures, and only faint recognition that developing the defense sector is similar in important respects to developing other sectors. Much of the literature is aimed at explaining to defense institutions how to act responsibly, persuading governments to get constitutional control of their militaries, and coaching on organizational reform and political oversight, all of which is sound and necessary.[22]

A good example is a recently published prescription for circumscribing the role of the military in a democratic society:[23]

- Clearly defined executive and legislative responsibilities, checks and balances
- Civilian primacy within the ministry of defense
- Informed parliamentarians, with expert staff, able to provide substantive oversight
- Independent defense and security expertise in the public domain (i.e., think tanks)
- Budgetary transparency and statutory audit
- Training of the military in democratic control
- An open and fair military justice system
- De-politicization of the military role in politics and politicians' interference in professional military matters.

We can readily subscribe in detail to these points as desiderata in any defense development effort. However, it would be naïve to think that such a code is warmly received in the countries and institutions where the need for defense transformation is greatest. Indeed, in re-reading the list from the standpoint of an imaginary senior officer in a military badly in need of reform, one can see that every one of these conditions could be menacing. To be fair, there are many officers, including senior ones, who favor better professionalism, accountability, and democratic oversight. But there are many who do not. It is unrealistic to count on reformers to gain and hold the upper hand, especially within inherently traditional and conservative military

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[22] Jane Chanaa provides a good, recent critique of the "security sector reform" literature and practice. Her emphasis is on the need to operationalize the theories and principles, which is where failure occurs. While the authors agree with that, we favor bolder prescriptions, including strong inducements and an expanded role for the development establishment.

[23] *Democratic Control of Armed Forces: The National and International Parliamentary Dimension,* Wim van Eekelen, DCAF, Occasional Paper #2, October, 2002, Geneva.

institutions. A core premise of defense development, then, must be that the objects of it will feel threatened and therefore resist. The image of a recovering addict volunteering for a twelve-step program is less apt than that of drug kingpin poisoning and extorting his neighborhood for money and power. The former welcomes intervention; the latter dreads it.

In an important critique of fifty years of international economic development efforts, William Easterly makes the case for concentrating on *incentives* (as opposed to filling financial gaps and other technical methods).[24] Taking a page from that book, military institution with a stake in the status quo and the means to guard that stake will change for any of three basic reasons: 1) they want to do what is right and/or in their own enlightened long-term best interest; 2) they are directed to do so by political leaders with the ability and will to back up their directives; 3) there is more pain than gain for the institutions and their stewards in resisting change. While the first two motivations might be in play, do not count on it. We believe that the special character of military establishments means that the case for using leverage for defense development is especially strong.

What are development institutions themselves doing? As suggested earlier, not enough. Until recently, and even now to a large degree, development organizations have steered clear of defense sectors. Their stakeholders, donor-dominated governing boards and donor governments, have wanted them to steer clear of defense out of concern — outdated and mistaken, in the authors' view -- that development aid could be diverted to arm militaries and security forces. Developing countries themselves assert that defense is a purely sovereign matter. This last argument for keeping defense off-limits for development is especially flimsy, since it is more likely that a state's military capabilities and conduct will have international ramifications than what a state may do in, say, its transportation or agriculture sector.

Multilateral and national development officials are increasingly aware that defense cannot be excluded from efforts to create good governance.[25] One "hook" that the development community has used has been to scrutinize the level of aggregate defense spending as part of overall national budget integrity and impact. The World Bank, for example, favors keeping defense spending in check or at least under a spotlight.

At the same time, treating only aggregate defense spending (whether per GNP or per capita) as a development issue is inadequate, can be misleading, and could have unwanted effects. As the cases examined later in this paper show, the fraction of GNP that *ought to be* devoted to defense vary considerably from country to country, depending on security circumstances. Either too much or too little military capability can be harmful to security and, indirectly, to development. Defense may indeed divert from development; or it may require more resources in order to improve the climate for development. Moreover, actual spending is very hard to measure and determine through the dark glass of many underdeveloped defense sectors; the problem is both sloppy accounting and outright concealment. There may be *more* money available for defense than a budget indicates because the military is involved in business; or there could be *less* because money is being embezzled or grossly wasted.

Most important, what the military spends money for can be more important than how much it spends: the level could be reasonable but the content could range from wasteful (e.g., too many troops or bases) to destabilizing (attack systems) to illicit (chemical weapons). Only by understanding the threat environment and alternative ways of coping with it can it be determined whether a given amount of defense funding is being used for good, for ill, or for naught. In sum,

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[24] William Easterly, *The Elusive Quest for Growth: Economists Adventures and Misadventures in the Tropics,* MIT Press. 2002

[25] Interviews at World Bank, USAID, and Treasury Department

this narrow focus on defense spending is a policy begging to be rethought or, better yet, expanded to be more meaningful.

At the same time, there are stirrings of activism in some corners of the development community. The most energetic and creative organization in that community has been the United Kingdom's Department for International Development (DfID). DFID has launched initiatives to clean up defense sectors in some countries receiving British economic and security assistance. The DfID endeavor constitutes a sort of proof of principle of an integrated defense-development strategy, and other national and international development organizations would do well to contemplate if not emulate it. DfID's defense development efforts are supported by other UK ministries, particularly the Foreign and Commonwealth Office and the Ministry of Defense.[26]

THREE COUNTRIES IN NEED OF DEFENSE DEVELOPMENT

At this point, it would help to get more concrete. The ideas in this paper make use of three cases: Rwanda, Indonesia, and Ukraine – countries chosen because of their dissimilarities, the obstacles they present, and the importance of making progress in each.

- Rwanda: African, small, poor, at war, important regionally but not strategically. Rwanda was the scene of horrifying genocide in 1994. It lies at the heart of a violent region, has been at war in neighboring Congo, and is ruled by a strong military with scant interest in reform.
- Indonesia: Asian, populous, sprawling, resource-rich, economically and strategically critical. Indonesia is a fledgling, far-from-perfect democracy and weak state trying to control a far-flung archipelago in the face of separatist movements and flaring Islamist terrorist trouble. Its military has been more adept in making profits and abusing human rights than in providing effective national security.
- Ukraine: European, middle-sized, unthreatened, quasi-developed, unreformed despite Western efforts, geo-strategically significant. Ukraine is the poster child of independence gone awry in Eastern Europe. Its defense establishment is both a constituent and a tool of a deformed political regime. While US and EU efforts have fostered some reform, it has been insufficient. The lack of civilian expertise in defense matters and the involvement of the military in arms trafficking remain major impediments.

In all three cases, though to different degrees, Western interests and values hang in the balance. Strategically situated and oil-rich, Indonesia could face an epidemic of civil wars or could fly apart. An unreconstructed Ukraine could become a source of instability at the crossroads of Europe and Russia and a sinkhole for Western aid and patience. Rwanda could aggravate turmoil in central Africa, with spiraling misery, economic costs and pressures for Western humanitarian intervention, as the British have undertaken in Sierra Leone, the French in Ivory Coast and Congo, and the Americans (perhaps) in Liberia. (So much for the assertion that what happens in Africa does not matter!) Alternatively, any of our three countries could emerge as a democratic, secure country with a promising economic future and favorable consequences for Western interests. The nature and behavior of the defense establishment of each may well affect which path it will take.

The pages that follow explore diagnostic differences and similarities in the three countries and offer bird's-eye country defense-development strategies. Following that, we will suggest some preliminary generalizations for defense development from the cases, which inform the paper's overall findings. Each case warrants more detailed discussion than is suitable for a

[26] Interviews with UK officials and independent British analysts

preliminary policy issue paper. Moreover, a sample of three can hardly be assumed to capture the richness of the comprehensive challenges of defense development. Still, the three are sufficiently representative of different classes of countries in transition and in need of defense development to help frame a new general approach.

DIAGNOSES

Rwanda is faced with continuing threats to its security and burdened with a military that controls the state and wages war to support itself politically and financially. Ukraine faces no substantial threats -- at least none that military forces are suitable to meet -- and has a political leadership that is corrupt and unwilling to undertake the military reform that is necessary for long-term economic growth and political acceptability. Indonesia is unlike either of these, with a military that is deeply involved in private-sector enterprises, wields strong political influence, and lacks the ability to respond to growing national security problems, except by abusing human rights.

The specific goals of defense development among these disparate cases are correspondingly varied. Rwanda must transition to a military that is capable of maintaining the country's security without threatening its neighbors, while being limited in its role in politics, business and society. Ukraine must reduce its force structure to a size appropriate to its modest defense needs despite the appalling lack of top political commitment to reform of any kind. Indonesia must simultaneously increase military effectiveness to respond appropriately to threats and reduce the military's role in politics and business.

Defense development is critical to both economic and political development in all three states. While Rwanda has experienced steady economic growth in recent years, its large military's foreign exploits are increasingly difficult to justify on security grounds and impose an undue burden on an economy that remains fragile. Ukraine's limping economy is the casualty of a political leadership beholden to private interests that oppose economic reform; the failure to implement more comprehensive military reform is a symptom of this problem, as well as a contributor to Ukraine's economic weakness. The Indonesian military's business activities harm transparency and distort markets; its political role undercuts civil society and is an alternative to democratic institution building. In all three cases, governance is weakened, economic policy-making and development assistance are made more difficult, efforts to fight corruption are undermined, and foreign investment is repelled.

These three situations present a range of challenges. While some of Rwanda's officers understand the need eventually to reform, its military leadership collectively has very little interest in change. (Again, retrogressive institutions can frustrate progressive individuals.) Because there are no political leaders who are not beholden to the military leadership, there is no authority in Rwanda prepared to force change that the armed forces do not want. The generals are the ones who must be somehow induced to reform -- and thus to forfeit their power and lucre. Yet, the international community has been loath to push Rwanda's leadership too hard, fearing that rapid change in this state which endured a brutal genocide just ten years ago would lead to a resumption of instability and conflict within its borders.

In Ukraine, the military itself has been comparatively open to transformation, and some progress has been made in the past decade. Two problems hamper these efforts, however. One is the unwillingness of the political leadership to bear the adjustment costs of comprehensive defense reform. These costs are economic and political, in that military downsizing will create unemployment, housing shortages, and possible dislocation of thousands of personnel and their families, all of which could feed popular discontent. The other problem, ironically, is the absence of effective political control over Ukraine's military forces, despite the otherwise heavy-handed nature of the civilian regime. While the military is not particularly powerful, it does enjoy significant latitude and is not really accountable for its own activities. As a result, what

reforms have occurred fall well short of bringing Ukraine's military forces and resources in line with the country's modest national defense needs. Ukraine's military remains too large for its needs, its military strategy is divorced from reality, and the political leadership is content with business as usual, literally as well as figuratively.

Like Rwanda's, Indonesia's military establishment is institutionally resistant to reform, although there are those officers who believe it is a long-term imperative. The elected and nationalistic political leadership, while paying lip service to the need for defense reform, has been unwilling to risk losing the support of the military, particularly at a time of growing instability in the country and the region. In fact, the current leadership has been advancing the notion of the military as a vehicle for national unity -- hardly a sign of commitment to sweeping reform. This political sympathy toward the military is echoed among the Indonesian people -- except for oppressed groups – who see the omnipresent armed forces as a reliable, or at least familiar, fixture in a country whose civil administration is too weak to assure order and services.

A few things are common to all three states. The opaque nature of military and defense planning and budgeting, as well as the absence of significant civilian defense-sector expertise, hamper effective oversight by national or international institutions. This, in turn, makes the implementation of any reform all the more difficult. The militaries of Rwanda, Indonesia and, to a lesser extent, Ukraine, all receive some of their funds through private-sector activities of varying shades of illegality, and the officer corps in all three states profits from such activities.

While the challenges in each of our cases are unique, they all point to a need to motivate those with the authority to make changes to do so. As already discussed, it is unlikely that this can be accomplished with traditional forms of security cooperation, especially if provided bilaterally by donor states that primarily seek friendlier relations and greater influence with the recipients rather than true defense transformation.[27] Nor is deep and lasting reform likely to result from advisory assistance, military training and exchange programs, and good personal ties when entire institutions need to be moved, and moved far.

COUNTRY STRATEGIES

RWANDA

For the Rwandan military not to have dealt effectively with some very real threats (notably, revanchist Hutu militia camped in the DRC) would endanger not only security but also development. Yet it could meet these threats in a more transparent and potentially – it is hard to know without transparency -- more cost-effective way. Moreover, the existence of real threats makes even more egregious the involvement of the Rwandan military in business and corruption. But it will not be easy to effect defense development, since the military is obsessed with national security, uninterested in reform, and in charge of the country.

It might be possible at least to convince the Rwandan military that cost-effectiveness can and should be improved through defense development, if only for the sake of better security. Otherwise, the application of leverage may be essential and would have to make use of both security assistance and relevant economic assistance. The drawbacks of aid conditionality are quite apparent in the case of such a poor country with a bloody recent past and real threats to face. But these have to be weighed against the drawbacks of letting the Rwandan military run the country, pillage its neighbor, and supervise itself -- of even unwittingly enabling it to do so by providing aid.

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[27] Interviews suggest that the Rwandan military has begun to infer, correctly, that there are limits to patience of their main assistance provider, the UK.

Taking a more purposeful, incentive-based approach to Rwanda yields a strategy that, while not guaranteeing success, may stand a better chance than previous efforts. The immediate obstacle to defense reform in Rwanda is the conflict in the DRC. The war is used to justify a variety of excesses and inefficiencies, but it also addresses some legitimate Rwandan security needs. Thus, a critical priority of the international community -- for this and other reasons -- must be to find a way to end that war, such that both DRC and Rwanda (and other central African states) can feel more secure.

As the war has ends, the challenge is to reform Rwanda's armed forces into a structure that provides security but does not threaten neighbors. This will be difficult given the incentives Rwanda's military leadership has to retain a large, profit-making force that keeps the regime in power. However, the end of the war will bring on new challenges of resettlement of returning refugees, including some former combatants. Such new demands could create perverse incentives to continue corrupt practices and to institute greater oppression to deal with dissent. Rwanda will need assistance with post-war adjustment, lest it risk losing the gains of its nascent economic recovery, the advantages of peace, and the opportunity for political rejuvenation. This assistance must be part of the overall effort to distribute widely and fairly the economic gains of peace.

The need for assistance with post-war restructuring could serve as the lever to convince Rwanda's leadership to make some changes, particularly if that assistance is conditional on those changes. If plans for restructuring could be documented in a public and credible national defense plan, the Rwandan military would then have a goal towards which to work and by which to be held to account. However, such a transition will require significant demobilization, which, if done poorly, could have severe economic and security repercussions. This provides yet another point of leverage in the form of economic assistance with demobilization, which should also be conditioned on defense reform. Thus, the strategy would have both a direct technical military assistance component (restructuring) and an economic development component (resettlement). Both parts would support defense and economic development, provided both are contingent on the military abiding by a national defense plan and other transformation measures.

It is unrealistic, of course, to expect Rwanda's military abruptly to cede power to a civilian government, stop its private sector activities, and downsize to a rational force. For one thing, there is no civilian government ready to take the reins of power, so the regime in power is the one with which donors must work. Even within that constraint, however, the required transparency of a national defense plan would foster the building of civilian defense awareness, expose the true costs of defense, deter corrupt and wasteful activity, and make the intentions of the military a matter of public record. This would, in turn, open the way for more substantial but conditional assistance, eventually helping Rwanda transition to an economically, militarily and, with good fortune, democratically sustainable state.

Ukraine

Because Ukraine does not face any major external threats, an operationally ineffective military, while hardly desirable, is at least not exposing the country to outside danger. However, one that wastes resources, helps maintain an anti-reform regime in power, and peddles illicit arms does weaken and could endanger the nation in the long term. While short on funds itself, Ukraine's outsized defense sector detracts from efforts needed to respond to the nation's real threats – transnational crime, economic depression, and bad governance. Yet, the corrupt Ukrainian political leadership relies to varying extents on the military and paramilitary organizations, and it fears the socio-political effects of downsizing defense. As a consequence, the regime will not easily be convinced to force reform on the military, absent the use of strong leverage.

What Ukrainian defense reform has already been undertaken has been grossly insufficient and easily undone. A believable national defense plan could be critical to defining the force size, structure and capabilities that Ukraine really needs. A plan would also promote transparency and civilian defense competence to enable control by responsible political leaders, when that day comes.

Again, the main challenge with Ukraine is convincing the political leadership to support the effort. Conditional assistance can be the solution here, as well. Providing demobilization assistance could
a) help Ukraine to downsize its force, b) provide broader economic stimulus, c) improve human capital by retraining soldiers, and d) contribute to the building of better housing and infrastructure in the country as a whole. Such assistance can help defray some of the political and economic costs of downsizing that have been a strong disincentive to reform for political leaders in the past.

Obviously, such support must be conditioned on progress at moving towards the force and associated infrastructure specified in a national defense plan, progress that must be transparent, tracked and sustained. Ukraine's poor record — little reform to show for billions of Western dollars sunk -- suggests that clear and strict conditionality is imperative. Whether it is sufficient cannot be known until it is tried.

Indonesia

The Indonesian military itself is unlikely to be open to change, since the status quo suits it fine. However, the civilian leadership, though dependent on the military, might be induced to insist on defense development for both security and development reasons. If not, economic and/or security assistance conditionality would be needed.

Precisely because Indonesia faces real threats and lacks the military capacity to respond to them without trampling on human rights, it desperately needs a serious national defense plan to outline real priorities for force size, structure, training, equipment and infrastructure. While Indonesia requires better defense, it is hard to say whether that would imply more or less defense spending: the requirements are unclear; the strategy is vague; the military establishment cannot manage resources to meet requirements; and in any case the bookkeeping is footloose.

Removing the Indonesian military from politics and everyday life will be hard. Post-Suharto reforms reduced office-holding and other formal military participation in politics. What remains undiminished is the pervasive involvement of the military in public life, made possible by a territorial structure that parallels and casts a shadow over weak civilian administration at every level. It is unclear whether competent civilian government could fill a vacated military role in helping society function and remain orderly. At the same time, until the military withdraws to its proper place there is little space into which democratic governance can spread and improve. This will be a slow process, but Indonesia's political and economic development will be retarded until it begins.

It is critical to both Indonesia's defense development and its economic development to limit the private sector activities of Indonesia's military. The development community could help "civilianize" the industries and businesses that the military now runs
by providing a range of assistance towards that goal. This assistance should be conditioned not only on progress in such demilitarization, but also on compliance with an Indonesian national defense plan and curtailment of proscribed activities. In addition, traditional security assistance should be conditioned on these same factors. Such assistance could to help Indonesia to develop the defense capabilities it needs, even as the military gives up its business revenues.

In this way, Indonesian political leaders' incentives will actually change, and it will be in their interest to champion and oversee defense reform for their own good and the good of the country. At the same time, by ensuring that the military is properly funded and develops needed

capabilities, security will also be strengthened, not for Indonesia alone but for the region. Think of the difference in Southeast Asian security if the biggest country (save China) were to have a clean and effective military instead of an ineffective profit-making one.

The transparency inherent in this process would reinforce the fight against proscribed activities and broader corruption, just as it would in Rwanda and Ukraine. The auditing processes required for foreign assistance would help make Indonesia's military more accountable to its government, its people and its foreign supporters.

WHAT CAN WE GENERALIZE FROM THESE CASES?

Rwanda, Ukraine, and Indonesia reveal several key common themes:

- Defense, whether strong or weak, is a heavy burden on a struggling developing economy.
- The size of that burden is unclear and unclearly related to security needs.
- The military wields political influence and is politicized.
- The military is involved in business, legitimate and not.
- Western efforts to effect lasting defense reform have been uneven, toothless, and largely unsuccessful.

There are also important differences among the three cases, which underscore the need to tailor defense development to fit the circumstances. The following table compares these conditions. Using simple yes-no-maybe judgments as best apply, it provides a profile of the conditions for which strategy should be tailored in each case.

Table 2.1

	Rwanda	Indonesia	Ukraine
Does the country face serious military threats?	Yes	Yes	No
Is the military effective toward these threats?	Yes	No	N/A
Does national security depend on defense development?	No	Yes	No
Does the military have internal security duties?	Yes	Yes	Yes
Does the military control the state?	Yes	No	No
Does the military have political influence?	Yes	Yes	Yes
Is the regime committed to political reform?	No	Yes	No
Is the regime committed to economic reform?	Yes	Yes	No
Can the regime be induced to support defense development?	Maybe	Yes	Maybe
Can the military be induced to accept defense development?	Maybe	Maybe	Yes

This comparison reminds us that developing countries may or may not have serious security problems that justify sizeable defense spending and capable forces. The right answer is not necessarily to reduce forces and spending but rather to ensure, in a transparent way, that the level and content of defense capabilities are responsive to legitimate needs and that capabilities are procured and managed economically. One of the advantages of successful defense development is that it would improve the ability of countries to deal with real threats by forcing a realistic view of needs, tying forces and resources to those needs, and increasing efficiency.

Of course, there are cases, Ukraine for one, in which large military forces and defense spending cannot be related to present or foreseeable threats at all. Rather, they may reflect an inability or unwillingness of government to help find gainful employment and provide social

safety nets for surplus soldiers. Although military spending is a poor surrogate for employment, the discharge of tens of thousands of soldiers (often armed) is more than many governments can manage; thus the utility of military draw-down assistance linked to restructuring and reform.

It is also apparent from these cases that domestic political conditions will vary from a generally upstanding if fragile elected leadership that is at the political mercy of the military (e.g., Indonesia) to a civilian regime that is even less reform-minded than the military (e.g., Ukraine) to military control (Rwanda). The feasibility of defense development, as well as the nature and target of leverage needed to produce it, will vary across this range.

The following chart shows where Rwanda, Indonesia and Ukraine fit along two axes: the severity of the security problems being faced along the horizontal, and the degree to which the military wields political power along the vertical.[28] In Rwanda, the danger is great, and the military is in control. In Indonesia, the political leadership is disinclined to question the military given the insecurity the country faces. In Ukraine, the military is subordinate to a political leadership with its own reasons, independent of any security needs, for allowing the military to remain bloated in the absence of threat.

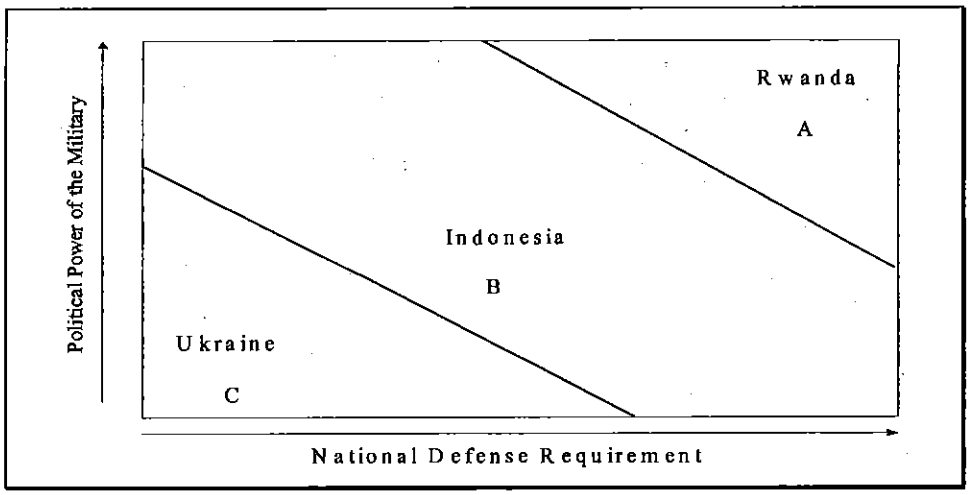

Figure 2.1

The point of this figure is not that all developing countries fall along a specific curve connecting our three cases, but instead that where they fall in the box can help clarify the military's role and what general strategy is needed. This perspective can be useful in indicating possible Western strategies for applying leverage to secure a commitment to reform and creating incentives to fulfill such a commitment. The northeast area (A) requires targeting the military while recognizing its legitimate national defense challenges; the southwest (C) suggests targeting the political regime, which tolerates an unreformed military for reasons that have little to do with national security requirements; the center (B) implies mixed civil-military control, with national security needs that cannot be ignored. This observation is consistent with the country strategies offered earlier: leverage the military in area A (e.g., Rwanda), the politicians in area C (e.g., Ukraine), and both in area B (e.g., Indonesia). In each case, vested interests and entrenched

[28] Among these three particular countries, the greater the threat facing the country the greater is the political strength of the military. However, this is not an inevitable correlation. For example, there are developing countries that face little threat yet are military-dominated (e.g., Myanmar) and others that are democratic even though they have security problems (e.g., Philippines).

institutions may resist defense reform, making outside intervention to alter incentives crucial for success.

GENERAL FINDINGS

Our analysis suggests several *global* tenets of defense development:

- The economic burden of defense must be made apparent and set at a level that balances real security needs and affordability.
- The military must be keep out of politics so that it does not undermine democracy or use its strength to forestall its own transformation.
- Those responsible for managing defense must keep out of business, whether defense-related or not.
- Defense development requires determined external support and incentives linked to commitments and performance.
- Defense development is permanent development, not temporary security cooperation, and should be motivated, managed, and measured as such.
- Given the international stakes, whether or not to undertake serious defense development should not be left solely to the countries in need of it.

At the *country* level, defense development will typically require a multi-pronged approach involving: a determination of need; published defense policy goals and plans, standards, and monitoring of performance and cumulative progress; fair warning of what constitutes "misconduct"; incentives to secure commitments that are fulfilled; assignment of institutional responsibilities; and international donor coordination globally and at the country level.

The pages that follow offer ideas about how these principles and policies could be operationalized and fit into a coherent strategy.

Building A Global Defense Development Index (DDI)

Some sort of independent, impartial index, with national score-cards, would help in many ways: by establishing which countries require attention; by legitimizing international involvement; by indicating remedial and resource priorities within specific countries; by providing an objective basis for incentivization; by enabling progress to be tracked; by clarifying what and how external security and economic assistance would advance or detract from defense development; by giving internal reformers an instrument for political use; and, where warranted, by focusing international censure.

One can imagine many useful indicators, of which the following are only a few:

- Transparency and integrity of plans, programs, and budgets
- Capabilities that correspond to legitimate needs
- Accounting for expenditures
- Levels of training, readiness and proficiency
- Infrastructure and support that is proportionate to military need
- Objectivity and incorruptibility in assignments and promotions
- Non-involvement in business
- Non-involvement in politics
- Civilian control and competence
- Compliance with international norms governing arms, military activities and personnel
- Implementation and institutionalization of reform measures to date
- Productive use of external assistance

Purely for the sake of illustration, the following figure shows how the authors would score (on a scale of 1 to 10 -- 10 being most favorable) the three countries analyzed in this paper

according to several of the factors just listed, with the un-weighted average shown as an index score for each.

Table 2.2

	Rwanda	Indonesia	Ukraine
Transparency and accountability of plans, programs, budgets and expenditures	1	2	3
Level of training and readiness	3	2	2
Objective process for senior assignments and promotions	1	2	4
Non-involvement in business	1	1	4
Non-involvement in politics	1	2	6
Implementation of reforms to date	1	1	2
Defense Development Index (DDI)	1.4	1.6	3.5

The results are not surprising: the higher Ukraine index reflects, among other things, ten years of strenuous effort by the United States and Western Europe to effect defense reform; the lower Rwanda index reflects the neglect of defense development in a country that has serious threats and a powerful military. As important as comparing these particular countries is the value of such an index in indicating country priorities. For example, Rwanda's military is relatively proficient, but it answers only to itself. In Ukraine, military forces do not correspond to needs and, not coincidentally, professionalism is poor. In Indonesia, beware of reforms that do not stick.

Requiring a National Defense Plan (NDP)

As much as any other public sector, defense depends on knowledge: data, intelligence, analysis, estimates, forecasts, plans and measurable results. Who controls -- gathers (or fabricates), interprets (or manipulates), disseminates (or hoards) -- knowledge controls defense. If a military monopoly over defense knowledge is not broken, progress in defense development is hard to track and reforms can be subverted. Merely appealing for defense knowledge to be accurate and available is not enough: We suggest a specific, internationally-recognized instrument of minimum essential, reliable defense knowledge.

It is logical and reasonable to expect countries receiving external security assistance and other development assistance to produce and publish an objective national defense plan (NDP), tying forces to requirements and requirements to capabilities, and then to manage defense according to that plan (until a new one is produced). Such a plan should not and need not reveal defense information that could be exploited by those who would threaten the country; but it should be specific enough to build regional and wider confidence that defense preparations are legitimate. It could also be of enormous benefit to internal reformers and civilian authorities.

An NDP should have at least the following elements:

- A statement of security interests and dangers to those interests (and international security responsibilities as appropriate)
- An assessment of the operational capabilities required to protect the declared interests from the specified threats
- Description of the forces — structure, troop strength, equipment -- needed to field the requisite capabilities
- Description of the infrastructure, training, personnel systems, command structures and other support needed to prepare the forces for operations
- Analysis of the funding needed to maintain both the forces and the support structure
- A modernization investment program to meet future needs
- A budget to fund current forces and investments
- A working system to relate budgets to programs to plans to needs
- Information and procedures to ensure transparency
- A provision for revision periodically and as needed

An NDP along these lines could help greatly in purging inconsistencies, off-line funds, bloated (or inadequate or inappropriate) capabilities, and incompetent management. It could clarify for the military establishment itself the purposes of a country's defense capabilities and strategy, set standards for cost-effectiveness in equipping and supporting forces, and establish concrete goals for improved readiness and operational proficiency. Implementation would help ensure better management, instill good habits, and build international confidence. In other words, beyond its direct purposes, an NDP could help produce a cleaner, leaner and more able military.

Critics will question the goal of making a developing country's military more able, i.e., stronger. It is one thing to support the improvement of, say, better roads and sanitation, and quite another to support military improvements. Indeed, this goes to the heart of traditional objections about the involvement of development in defense. But if the threat environment and defense needs are laid out clearly, if current and planned capabilities are linked to needs, if all defense moneys are accounted for, and if actual expenditures and performance are true to the plan, three critical questions will be answered: 1) Would a more able military would increase of diminish international security? 2) Should military spending be reduced, increased, or redirected? 3) Is the military establishment acting and using resources in ways that will not hurt economic development and governance or not? Answers to these questions would be much more meaningful to those concerned with general development than what the nominal level of defense spending is. An NDP can thus be indispensable in reconciling a country's defense efforts with its economic and political development – a huge advance over a simplistic policy of discouraging defense spending.

Responsibility to prepare an NDP should be placed on the country itself, perhaps with international donors relying on the DDI we have proposed indicate which countries should do so -- another advantage of having a DDI. For a country in need of an NDP decline or fail to produce a credible one would be a strong signal to donor countries and institutions. Production of an NDP could require bilateral or multilateral help, perhaps initially cooperation in defense planning and implementation, scaled back over time to advisory support. At the end of the day, some multilateral body would have to determine whether the NDP meets standards of objectivity, disclosure, and soundness (read on).

A helpful addition to, or an addendum of, an NDP could be a national defense development plan (NDDP), placing on the public record the commitments of the government and armed forces to take measures to create a clean, lean and able defense sector. An NDDP would provide a baseline for measuring progress, facilitate the release of conditional security and other assistance, and help ensure lasting results.

Impermissible Activities

A defense establishment could prepare and gain international acceptance of an NDP and yet still harm development and security. For example, the military might manage its own affairs correctly but cause damage through extra-curricular activities or flawed political accountability. It might abide by its NDP but ignore its civilian leaders. Therefore, it is important to set forth key internationally-accepted "don'ts", such as:

- Categorical exclusion of the military from business -- defense and non-defense, legal and illegal. Among other purposes, this should be a pre-condition of international assistance. Arguments that business activities can help generate resources for defense are either specious or, if true, should be remedied through creation of and compliance with a proper NDP relating resources to needs. If the national budget has to allocate more resources to defense to make up for lost business revenue in meeting justified requirements, so be it. It is of fundamental importance that the amount of funding available to the military, whether for arms or for perks, be controlled absolutely by civilian authority.
- Military involvement in politics is more complicated and less easy to stop abruptly. It may require constitutional change, as it has in Indonesia. Moreover, it may have to await sufficient improvement in civilian administrative capacity to maintain basic functions, provided this is not used as an excuse to delay indefinitely. Reducing and eventually eliminating military involvement in politics ought to be mandated, scheduled, and monitored. Meanwhile, it is vital to end conflicts of interest involving the military in politics, e.g., officers, officials, or ministers overseeing themselves or the use of military forces or resources to serve partisan political ends.
- Anything less than accurate and complete accounting by the military for resources under its control should be considered unsatisfactory and should disqualify it from at least security and perhaps also economic assistance.

"Impermissible activities" are strong words. Who decides what is impermissible? And who has the authority to impose such codes on sovereign countries? Is this yet another case of the holier-than-thou developed world dictating to the developing world? A strategy to spur and spread defense development through international intervention and pressure must have legitimacy, which usually means an inclusive institutional basis. International institutions have or should be given the authority to promote norms, set standards, and take action when a state's behavior affects others and when international resources are made available to that state. Other nations have some degree of responsibility to back up institutionalized norms. In practice, embedding such norms in an independent, respected DDI would help blunt criticism that the West is ordering the South how to behave, which underscores the need to have a DDI that is globally recognized.

Establishing and Managing Conditionality

In principle, security assistance, including financing, training, and sales of defense articles and services, should be linked to a proper NDP and NDDP and to progress relative to an independent DDI, including avoidance of impermissible activities. Obviously, the greater the conditional assistance, consistent with legitimate needs, the greater the incentive to meet the conditions. While security assistance can be used to try to pry open cooperation on the part of the military itself, leveraging of other development assistance might have to be targeted on political leaders who can and must insist on defense development.

Treating defense development as one component of the overall development agenda enables a broader and potentially more effective sort of conditionality for assistance. In fact, conditionality, proportionality, and benchmarking are traditional tools of development agencies,

and could be well applied to defense development, as they have not been in the past. While it is not fair or logical to condition all assistance on defense development, it does make sense to condition that assistance which depends on defense reforms for its effectiveness. Because it is clear that ineffective and corrupt militaries can damage development, it follows that the effectiveness of at least some development aid could be affected and so should be linked to defense development. Broader conditionality also facilitates motivating the right groups within government or society -- the ones that may have been blocking reform, but could be convinced to support it if faced with a combination of sticks and carrots. As seen in the Ukraine and Indonesian cases, these groups are not limited to the military alone, which is another reason why conditionality of assistance cannot be limited to the military.

In the United States, Congress and the Executive branch have tried with varying levels of success to tie at least security assistance to political conditions, especially to "human rights" and "democracy." While such a rationale for conditionality of assistance may have its pros and cons, it is different than the idea advanced here. We have in mind linking security to progress in transforming the defense and military establishments of developing countries where these establishments represent obstacles to broader development, durable security, and good governance. Possibly some other forms of assistance could also be included, if their success is hampered by lack of progress. In this way, the recipient regime and/or military establishment are given strong incentives to make fundamental and, one would hope, irreversible institutional changes. This would produce progress, and it would make sure that such progress would last.

A debate over conditionality has been raging within the development policy and research communities.[29] The authors can only comment on this debate as it applies to defense development. Arguments in favor of conditionality are that it clarifies expectations, benchmarks performance, protects stakeholders' stakes, and strengthens reformers. The strongest argument against conditionality is that it does not encourage or even undercuts local commitment to reform, which could make it unsustainable.[30] This legitimate concern has to be weighed against the lack of self-motivation for defense development. It also needs to be factored into strategies for inducing defense development. While the requirement for an NDP may be imposed by donors and not warmly embraced, the fact that the recipient country prepares and takes ownership of that NDP and then uses it to guide its own, better, defense efforts should provide growing self-motivation over time.

A related criticism of conditionality is that international financial institutions have over-stepped their mandates in linking aid to fundamental political change, as opposed to getting through financial crises. The original purpose of conditionality was to protect the financial integrity of the Bretton Woods institutions and their donors, not to exert influence over recipient-country policies, let alone politics.[31] However, Bretton Woods or no Bretton Woods, it may take fundamental political change to end those defense practices that harm development and security the most. Moreover, tolerance of underdeveloped defense could block wider progress toward good governance, perhaps more than any other sector, suggesting that the argument for

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[29] See, among others, Kapur and Webb, Collier and Gunning, Hudock, Goldstien, Ranaweera.

[30] One of the weaker arguments against conditionality is, in essence, that it imposes a conflict of interest on staff in multilateral development institutions, between providing aid and withholding aid in the interest of economic or even political reform. With regard to defense development, the authors believe that assistance in the absence of reform is at best wasteful and at worst enabling and reinforcing.

[31] Devesh Kapur and Richard Webb, *Governance-related Conditionalities of the International Financial Institutions*, UNCTAD,
G-24 Discussion Paper, 2002

conditionality linked to governance is nowhere stronger than in defense, and never stronger than today.

Still, conditionality can be tricky. A strategy that requires multilateral or bilateral assistance providers to threaten or actually to cut off needed development assistance for non-compliance with certain standards — say, an inadequate NDP — could be counterproductive in some circumstances, neither yielding the desired result nor delivering needed help. With these pitfalls in mind, defense development conditionality could follow several principles:

- First, the only assistance that should be tied to defense-sector performance should be that which would be made ineffective or wasted in the absence of that performance. For instance, the purposes of security assistance can be largely defeated by poor or corrupt defense management. Or, general budgetary support can be diverted into excessive or untraceable defense (or pseudo-defense) activities. On the other hand, it is unlikely that the effectiveness of assistance for, say, education or health would be seriously undermined by defense mismanagement, or that making such assistance conditional would be efficacious, much less fair and humane.
- Second, conditionality should be proportionate to the problem. A national defense sector whose only sin is slight ambiguity about actual defense spending should not face a complete cut-off of all security and economic support. Less draconian means should be found to persuade or help it accurately to reveal spending.
- Third, carrots are as useful as sticks. A defense establishment that shows a determination to develop could be offered support ranging from modest know-how sharing in preparation and implementation of an NDP to large-scale help with modernization, restructuring or adjustment costs. Thus, adherence to practices that would in themselves benefit the country and its legitimate defense interests could also yield substantial force improvement, demobilization or other aid.
- Fourth, standards to be met should be based on broadly agreed norms, not just those favored by donors, international bureaucracies or other direct stakeholders. They should be applied firmly, predictably, and consistently.
- Finally, the form of conditionality should fit the circumstances. In economic development, conditionality takes several forms. One is to offer assistance but to link its delivery to the achievement of specific financial targets to help ensure its efficacy. A second is to use conditional assistance as leverage to obtain recipient agreement to reforms in governance that will advance development broadly. A third, akin to the second, is to qualify countries as recipients, or not, based on whether they meet certain criteria of good governance and policy. Defense development should blend draw these approaches: Countries with military establishments involved in "impermissible" activities would not be entitled to receive at least some types of support. Conditional assistance should be aimed at motivating institutional and policy change. And specific injections of assistance should be linked to specific targets and results.

Institutional Responsibilities

Because defense development is so interdependent with economic development, the development community is the preferred setting for setting norms and goals, recognizing performance, and coordinating defense development with larger development strategies. As already noted, countries and their defense organizations have many priorities in providing security assistance, and developing the defense establishment of the recipient state may not be a high one. At the same time, there are many obstacles to involving the development community in defense development.

At the national (bilateral) and international (multilateral) levels, there are three institutional options for mounting and managing defense development as defined above:

- *Lodging the responsibility within defense ministries but with improved coordination between security cooperation policies and development policies.* The advantage of this option is that Western defense ministries have substantial assets -- financial resources, expertise, contacts, and leverage – should they be inclined or directed to use them to motivate and support defense development. Moreover, Western defense establishments will remain responsible for providing security assistance for a variety of reasons of which defense development is one. So this is a pragmatic option. On the other hand, one wonders whether it could achieve the purposes of defense development. Those who know the limitations of "coordination" in government policy-making and administration will share the authors' doubt about this path.
- *Expanding development responsibilities to include defense development.* The advantage of this option is that development is the right paradigm, with many of the right tools, skills and techniques, for turning bad defense establishments into good ones and keeping them that way. This option would also help to bring about coherence in overall development strategy, as our three cases suggest. The disadvantages are that development organizations lack defense expertise; that they are sure to encounter resistance from both stakeholders and recipients; and that they do not control direct security assistance, which can be an important tool of defense development.
- *Standing up new institutions for this specific purpose.* The principal doubt about this approach — other than practical questions about funding, authority, capabilities, and accountability — is that it would be grounded in neither the security nor development realms, putting defense development in a bureaucratic never-never-land. Since leverage will be important and must come from security assistance and/or development assistance, an institution that controls neither will lack the means to induce developing countries to fix their defense sectors.

In the final analysis, it is important to recognize defense development *as development* and to manage it accordingly. Moreover, development assistance provides considerable leverage to induce essential defense reform, assuming Western stakeholders are prepared to use it. Finally, to the extent that both economic and defense development affect and are affected by the quality of governance, there is a strong advantage in having these two horses pulling together.

At the same time, the lack of expertise and credibility in defense development must be addressed at both multilateral and bilateral levels. These shortcomings will not be easily or quickly overcome. But the task of defense development should not be deferred. Therefore, we suggest as an interim step in as many countries as possible something like the UK's inter-ministerial — DfID, Defense, and Foreign Office -- body and budget to develop, resource and implement policies.[32]

Multilateral

The World Bank is showing a growing awareness of the defense development problem, though as noted it has not gone much further than tracking, and discouraging, aggregate defense spending. Without affecting the way the Bank is tackling or planning to tackle its current development agenda, it should be possible to establish a new arm that can acquire or make good

[32] It is worth noting that the British inter-ministerial committee responsible for "security sector reform" has been chaired by DfID.

use of available independent expertise to monitor DDI, help develop and track NDPs, and monitor defense activities for their impact on governance and development. In addition to this function, the Bank would be the institution to advise or determine when conditionality makes sense and to coordinate country strategies with and among its donor-members.

We are not proposing a shift in priorities for the Bank but the addition of a crucial new one. We recognize the obstacles and the time it would take to line up all relevant ducks. But we would rather be clear about the end-state to which our analysis points. Were the World Bank to move toward this responsibility, regional development banks would likely follow. They too could have useful roles to play as part of a network of multilateral and bilateral providers.

Of course, the World Bank, the regional development banks, and their stakeholders would themselves need to have a strong incentive to accept this responsibility and to discharge it effectively. At the end of the day, we cannot do better than these two points: First, consider how economic development can be affected by a military establishment that is exemplary, a guarantor of democratic governance, and able to provide security cost-effectively, versus one that siphons off national and international resources, defies or intimidates civilian authorities, poisons politics and governance, creates regional insecurity, and cannot even defend the nation. Second, think of how the problems of defense underdevelopment can be remedied by many of the same concepts, methods and skills that are being used in the wider struggle with underdevelopment. Ask the Bank's resident representatives if defense and security sectors can be walled off from effective development strategy at the country level, and we think the answers would be telling.

Bilateral-Multilateral Coordination and Responsibilities

Unless nations respect and reinforce multilateral norms, standards, policies, and country efforts in defense development, they will not work. The foreign policy and security cooperation programs of one country, perhaps aimed at gaining political influence and military access, could undercut the good work of others aimed at defense development. Therefore, international accountability should apply to both assistance providers and assistance receivers.

Once an NDP is produced and accepted, nations should be obliged to be consistent with it and encouraged to support it. This means, for example, that a nation that fails to produce a credible NPD or has produced one but then ignores it should be subject to the same conditionality bilaterally as it is multilaterally. It means that nations are expected not to provide arms or security assistance that is not consistent with a recipient's NDP. It means that nations should insist that proscribed conduct be ended if such assistance is to be forthcoming. And it means open sharing of information that bears on defense development.

In sum, individual Western countries would be expected to accept a multilateral defense development strategy along the lines presented here. Beyond that, they should be called on to find ways to help without diverting from other crucial development assistance. Within their own governments, they should ensure that security assistance and development assistance are at least closely coordinated if not unified with the goal of defense development in mind.

CONCLUSION

The West, having mounted a major effort to transform military establishments in the East and a minimal effort in the South, now finds itself with uneven results in the former and a glaring problem in the latter. The consequences of failing to effect defense reform are not to be taken lightly: waste, criminality, conflict, transnational dangers, oppression, coups, and stalled development, with all of its nasty consequences in turn. This suggests the need for a more strategic approach, such as that just outlined.

This approach might be criticized as patronizing, domineering, interventionist and, because it is driven more from abroad than home, not sustainable. To such anticipated criticisms,

the authors can only reiterate: that military institutions in need of change will have a strong reasons and means to resist it; that democratic governance is not effective enough in most such countries to expect elected leaders to mandate defense development; and that the consequences of defense underdevelopment can be felt well beyond the country in question and well beyond defense. After all, the West did not wait for the former communist countries to devise plans for their transformation: it played a very assertive part, including the use of conditional assistance, because the stakes were high and time could not be wasted.

The authors believe that corrupt, swollen, and incompetent defense and military establishments deserve a share of the blame for the conflicts, oppression, and poverty that still plague many countries and that can create insecurity far from their borders – and closer to ours. So the stakes are high, time cannot be wasted, and the international community has a legitimate role and heavy responsibility.

Indonesia: A Case of "Defense Underdevelopment"

David C. Gompert, RAND

For USAID Africa Missions Team

October 7, 2003

Global Need for Defense Development

- Corrupt, bloated, and ineffective militaries harm development
  - by undermining security, economic performance, and governance
- They are common in the developing and former communist worlds
- Many have incentives, institutional bias, and clout to resist reform
- Results to date are disappointing except in Eastern Europe
- Must consider sources and limits of influence
- Development and security stakes warrant focus and use of leverage
- Falls between cracks of defense and development domains

Indonesia: Development Outlook

Population	235,000,000
GNI/capita (PPP)	$3000
Poverty	18% below poverty line
Corruption Index	1.9 on scale of 0-10 (10=clean)
Democracy Index	21st percentile

Indonesia: Development Outlook

Development Assistance (in million $)

Multilateral development assistance	1374
Bilateral development assistance	1500
• United States	141
• Japan	860
• Netherlands	120
• Germany	30
• France	26
• United Kingdom	23
• Canada	19

Indonesian Military

- Ineffective in meeting serious security challenges
  - -separatism, terrorism, ethnic violence
- Depends on abusing human rights
- Withdrawing from politics; still pervades society
- Involved in legal and illegal business
- Keeps 2/3 of defense resources off-budget
- Holds de facto monopoly of defense knowledge

Indonesia: Defense Outlook

Defense Budget	.8 B (Malaysia: 2.7 B, Thailand: 1.7 B)
Defense Budget (% of GDP)	0.54% (Malaysia: 2.76; Thailand: 1.52)
Active duty troops	300,000
Other security forces	250,000
Soldiers to population (%)	0.24% (Malaysia: 0.68; Thailand: 0.46)

Parallel Civilian and Military Territorial Structures

Civilian Structure	Military Structure
Central government	Headquarters
Province	Territorial Command
District	District Command
Sub-district	Sub-district Command
Village	Village NCO

Effects on Development

Direct

- Resources unaccounted for
- Corruption tolerated
- Business distorted
- Investment discouraged
- Democracy compromised

Indirect

- Threats unmet
- Poor governance perpetuated

Unfinished Post-Suharto Reforms

- Role in government
- Policy making
- Elections
- Internal affairs

- Military should not hold office
- Role-sharing with government
- Neutrality
- Limit to external security; separate military and police

The Problem

- Reforms to date have been incomplete
- Backsliding has occurred
- Military will not reform of its own accord-
  conservatives have upper hand over reformers
- Political leaders will not demand reform
  - view military as emblem of nationalism
  - consider threats more urgent than reforms
- Territorial structure gives military continuing role

Strategy Options

1. Defer until auspicious time
2. Persuade, teach, help
3. Tie military aid to reform
4. Tie military and other aid to reform

Roles, Responsibilities, and Means

- IFIs
- US
  - DoD
  - State
  - USAID
- Other donors (e.g., Japan, Netherlands)

A Possible Strategy

What?	*Who?*
▪ Insist on a national defense plan	▪ Principal donors
▪ Get the military out of business	▪ Donors and IFIs
▪ Dismantle territorial structure	▪ Donors
▪ Get all defense spending on budget	▪ Donors and IFIs

How?

- Tie to increased military assistance to assist reform and improve security
- Tie to other assistance as appropriate

volts in the outer islands that the overextended Indonesian military would be unable to control.

General Policy Implications

Disintegration would have catastrophic consequences for counterterrorism efforts and regional stability. It would result in severe economic dislocation and an increase in illegal migration, piracy, and international crime. It would also significantly increase the likelihood of major humanitarian crises requiring a response by the international community.

Separatist and irredentist groups throughout the region would be encouraged to press their agendas and could find support in some of the new entities that emerge from the Indonesian shipwreck. ASEAN would be severely weakened or destroyed as an effective regional organization. Regional states would be forced to fall back on their own resources to provide for their security, increasing the likelihood of interstate conflict.

In the counterterrorism arena, the fragments of a failed Indonesian state could become havens for terrorists and troublemakers of all stripes, creating huge challenges for U.S. counterterrorism policy.

Chapter Thirteen

GOALS FOR INDONESIAN MILITARY REFORM AND ELEMENTS OF A U.S. ENGAGEMENT STRATEGY

The tensions that Indonesia is currently experiencing are certain to continue and, as noted in Chapter Twelve, could lead to a variety of outcomes. Given the importance of stability and orderly change in Indonesia, the United States and the U.S. military would do well to engage the Indonesian military in order to shape its response to changes in the country's political environment and to hedge against the downside of change.

Cooperation between the U.S. and Indonesian military has been intermittent and plagued by tensions over East Timor and human rights issues and by congressionally mandated sanctions. However, the democratization of Indonesia since the fall of Suharto has created opportunities for closer military interaction. This interaction offers a base upon which the Indonesian military can move forward with military reform and deal constructively with the challenge of rebuilding civil-military relations on democratic principles.

GOALS FOR INDONESIAN MILITARY REFORM

Among the goals the TNI sets for itself are internal reform, development of well-educated leaders who support democracy over dictatorships, and support for civilian institutions that will preserve national unity and internal security. The U.S. military's program of engagement should focus on providing the Indonesian military with the doctrines, training, and resources to implement its reform pro-

gram and to develop the capability to defend the country's unity and territorial integrity.

Reform of the Territorial System

The TNI's leaders believe that it would be irresponsible to give up its political powers and influence until a suitable and effective successor institution is in place and can assume responsible governance. The much-criticized territorial system is a case in point. The position of TNI chief of staff for territorial affairs has been downgraded to an assistant post, and a public commitment has been made to turn over most of the territorial system functions to the police and civil government. However, both civilian and military leaders agree that civilian institutions are not yet ready to assume these functions.

The military leadership has conducted several public seminars at which the future of the territorial system was of primary interest. Both the military leadership and civilian critics agree that the lowest levels of the system—the village, subdistrict, and district levels—will eventually be disbanded. Among those expressing this view was Lieutenant General Agus Widjojo, who served for several years as the TNI chief of staff for territorial affairs ("Kaster TNI ...," 2001).

The goal for the TNI in this area should be to begin the process of dismantling the territorial structure in those areas where the security conditions do not require a continued military role.

Civil-Military Relations

Political changes are already underway throughout the TNI as an institution. Perhaps the most important of these changes is the formal renunciation of the controversial dwifungsi (dual function) doctrine under which the armed forces had an official, formal political mission. Dwifungsi was originally intended to provide much-needed political leadership to a country foundering in the economic and political quagmire of the Sukarno years. After gaining the presidency, however, Suharto used the dwifungsi concept—which by then had become military doctrine and enshrined in national law—to justify extending the military's tentacles into virtually every element of civil society. In so doing, the armed forces became the base of support for

the regime, the enforcer of Suharto's will, and the political power behind the throne.

The actual effects of the elimination of dwifungsi from TNI doctrine must await the passage of time, but the TNI should be encouraged and helped to deal constructively with the challenge of building a new model of civil-military relations based on democratic principles. A great part of the burden of building this new model, however, lies with the civilian leadership. The civilian sector needs to develop the depth and range of knowledge in defense matters that would make its views respected by the soldiers. It is also incumbent upon the Indonesian government to ensure that civilians appointed to senior positions in the Indonesian Department of Defense have the requisite expertise.

Military Financing

As has been recognized in other countries such as Thailand and China, the military will not become fully professional until it withdraws from its various economic activities. In the case of Indonesian, given the country's budgetary difficulties, it is not realistic to expect that the TNI could be funded entirely out of the state budget in the near term. Therefore, while this should be a long-term goal, the most practical solution for the present would be to increase transparency and accountability in military-run enterprises. This would reduce opportunities for corruption, quantify the true costs of operating the military, allow for more rational planning, and lay the groundwork for the eventual phasing out of off-budget expenditures.

Human Rights

TNI reformers have also begun to reform military education by including human rights and rules of engagement in military training. But, as the International Crisis Group has noted, the military has not imposed penalties for the violation of these rules, particularly in conflict areas such as Aceh and Papua (International Crisis Group, 2001d). The more thoughtful TNI leaders recognize the importance of improving the military's human rights performance, both to defuse international criticism and to restore the link between the army and the people, a link that has always been at the heart of the

TNI doctrine. A problem lies in the TNI's corporate culture of loyalty up and down the chain of command and the cultural aversion to directly criticizing anyone, even subordinates, for fear of weakening loyalty and patronage ties.[1] Change in this area will be slow to evolve and would be most successfully promoted through the use of positive incentives that reinforce trends already underway in Indonesia.

Links to Rogue Groups and Muslim Extremists

Political fragmentation after the fall of Suharto encouraged the development of links between some active and retired senior military officers and rogue elements. Political stabilization and the development of healthy civil-military relations, as well as the requirements of military professionalism, will require the Indonesian political leadership and the TNI to take meaningful actions to break these links.

ELEMENTS OF A STRATEGY OF ENGAGEMENT WITH INDONESIA

Restoring IMET funding for Indonesia is the first priority. As noted in Chapter Eleven, because military training for Indonesia was effectively terminated in 1992, there has been a "lost generation" of Indonesian officers—officers who have no experience with the United States or who have no understanding of the importance that the United States military attaches to civilian leadership, democracy, and respect for human rights. U.S.–trained senior officers formed the core of the reformist wing of the TNI that sought to implement reforms after the downfall of President Suharto. As many of those officers retired, the impetus behind the military reform movement diminished. Therefore, rebuilding this core of U.S.–trained officers is a critical need, although, realistically, it will take years to undo the

[1]Another problem, according to former Minister of Defense Juwono Sudarsono, is the disconnect between the central headquarters and the units on the field. Individual commanders, especially in hardship areas, are dependent on local interests for financial and other support and are therefore beholden to those interests. The TNI headquarters has control over promotions and assignments, but not over the day-to-day behavior of the troops (interview with Juwono Sudarsono, Jakarta, February 2002).

damage done by the decade-long suspension of the IMET program for Indonesia.

An initial IMET package for Indonesia could include military medical training (for instance, trauma skills courses for troops engaged in field operations); safety training for the air force and navy; legal training—especially in rules of engagement and discipline problems—which is currently a priority along with counterterrorism training in Indonesian army training; and, of course, higher military education.

Another part of this engagement strategy would be to provide the assistance needed to prevent the further deterioration of Indonesian military capabilities, particularly in the area of air transport. An Indonesia that does not have the ability to defend itself or to respond on a timely basis to outbreaks of communal conflict is less likely to develop as a stable democracy. The current proposal to assist Indonesia with training and equipping a peacemaking unit with the capability of rapid deployment to areas of conflict would contribute greatly to the reestablishment of a climate of peace and security, without which political and economic reform cannot move forward. The United States should also extend support to the Jala Mangkara detachment (manned by both marine and navy personnel) and to the navy's Kopaska unit. Both of these units have the ability to conduct maritime counterterrorist operations and could play a role in interdicting illegal weapons shipments to Aceh and the Moluccas. Neither unit has been implicated in human rights violations.

Combined military exercises also provide valuable training opportunities. Indonesian military personnel should be invited to participate in the next multilateral Cobra Gold exercise (with the United States, Thailand, and Singapore). Indonesian counterterrorist and special forces should also be encouraged to participate in training exchanges with Philippine military units, such as the Scout Rangers, who have already been exposed to U.S. training.

Even if domestic politics in Indonesia make accountability for the use of U.S. equipment and training difficult to address to the satisfaction of the U.S. Congress, the United States can achieve important counterterrorism objectives by providing training and technical support for Indonesia's civilian National Intelligence Agency (BIN) and

the military intelligence organization (BAIS). The focus of the assistance program could be on improving technical data collection and analytical capabilities. The program has other key benefits:

- First, it will present an opportunity to improve Indonesia's civilian and police intelligence organizations with new, specialized training and equipment. This will better enable those organizations to seek out and to apprehend international terrorists seeking shelter within Indonesian militant organizations.
- Second, the program will give the United States an opportunity to assist in the professionalization of the Indonesian intelligence community, which has been criticized for its human rights abuses and inappropriate covert operations. BAIS officials have indicated that they were interested in learning more about U.S. intelligence philosophy and increasing contacts with their U.S. counterparts.[2] The United States should take advantage of this window of opportunity to shape the thinking of this important sector of the Indonesian military establishment.
- Third, the program will assist Indonesia in reining in its domestic religious extremist organizations, which are allegedly linked to international terrorist groups and which have contributed so greatly to domestic instability and violence. The Indonesian military and intelligence services recognize the problem of external funding of extremist Islamic organizations in Indonesia, but have limited means to control the flow of funds. The United States should help the Indonesian government to develop the technical means to monitor and control these financial flows. The Indonesian government, for its own part, should secure the passage of adequate legislation to permit its security services to carry out their responsibilities in this area.

Finally, a word of caution: Despite the potential importance of U.S. engagement with Indonesia, the United States' ability to shape Indonesian military behavior and to hedge against adverse outcomes is limited. With some exceptions, notably air transport, the Indonesian military does not rely on high-technology equipment and is not dependent on the United States for its equipment and training.

[2]Angel Rabasa's discussion with BAIS officials, Jakarta, February 2002.

Also, there are limits to the ability of the United States to control how the equipment provided to Indonesia is used. Moreover, given the Indonesians' sensitivity to issues of sovereignty, there is a large potential downside to excessively intrusive behavior by an external power. These factors can complicate the task of developing a constructive cooperative relationship between the U.S. and Indonesian governments and militaries, but do not reduce the importance of that relationship.

Africa Day
October 7, 2003
Washington, DC

Session 3

Title: Presentations from PPC and Pillar Bureaus with Q&A

Time: 2:00-3:15

Moderator: Keith Brown

Objective: To provide an opportunity for PPC and the pillar bureaus to address issues of interest and concern.

Topics to be discussed/questions to be answered:

Anne Peterson, AA/GH – AFR's role in programming HIV/AIDS funding; relationship with new HIV/AIDS coordinator

Emmy Simmons, AA/EGAT – support to missions, the new overseas staffing template

Roger Winter, AA/DCHA – innovative approaches to conflict resolution

Steve Brent, PPC – status/update of MCA, including country selection process and projected role of USAID vis-à-vis MCA in country preparation and implementation; implications for resource allocations in MCA and non-MCA countries

Rapporteur: Pat Jordan

E. Anne Peterson

Assistant Administrator, Bureau for Global Health

Dr. E. Anne Peterson was sworn in on Nov. 6, 2001, as assistant administrator of the Bureau for Global Health for the U.S. Agency for International Development (USAID).

Dr. Peterson provides health leadership to the Bureau for Global Health, which is tasked with technical and program support to field interventions as part of USAID's foreign aid in HIV/AIDS, infectious disease control, reproductive health, child and maternal health, environmental health, and nutrition.

Before coming to USAID, Dr. Peterson served for three years as Commissioner of Health for the State of Virginia. Following the Sept. 11, 2001, terrorist attacks, then-Virginia Gov. James Gilmore called upon her to address the crisis caused by the attack on the Pentagon and subsequent anthrax bioterrorism.

Dr. Peterson has an extensive background in both U.S. and international public health and medical practice. She has served as a consultant to the Centers for Disease Control and Prevention and the World Health Organization in Haiti and Brazil, designing elephantiasis treatment training materials and evaluations of educational interventions. She has spent almost six years in sub-Saharan Africa (Kenya and Zimbabwe) doing community development, public health training, and AIDS prevention, as well as performing U.S.-based research in chronic disease prevention, outbreak investigations, and food safety. The author of numerous scientific publications, Dr. Peterson has spoken extensively on the national and local levels to community groups, scientific meetings and legislative committees on a range of health issues.

Dr. Peterson obtained her M.D. from the Mayo Medical School in Rochester, Minn. and her M.P.H. and Preventative Medicine residency from Emory University in Atlanta, Ga. She is board certified in General Preventive Medicine and Public Health with medical licenses in Virginia, Georgia, Minnesota, and Zimbabwe. She has a bachelor's degree from the University of Washington in Seattle.

Dr. Peterson and her husband, also a public health physician, have three teenage children and live in Northern Virginia.

Dear Colleagues,

With the President's announcement of the Emergency Plan for AIDS Relief earlier this year, we are all involved in an exciting and challenging new endeavor. While there is much to do to implement this historic initiative, I would first like to recognize and thank you for your diligent work on the President's International Mother and Child HIV Prevention Initiative (PMTCT). Our success with these initiatives rests in large part on your hard work, insight, and experience.

During this first round of technical assistance visits, we are seeking field staff thoughts, reactions, and input as we begin to formulate the Emergency Plan strategy. This is the first of many opportunities that you will have to share your ideas about moving the Initiative forward.

The intent of this document is to provide Technical Assistance teams and U.S. Government field staff in the focus countries of the PMTCT Initiative and the Emergency Plan with background information on the Emergency Plan, and our current thinking regarding program implementation. The document is divided into the following three sections:

Section I – Update and Background on the Emergency Plan for AIDS Relief
Section II – U.S. Government Involvement in Implementation Plans for the Emergency Plan for AIDS Relief
Section III – Brainstorming Session

In the coming months, we can anticipate that our management will evolve as we learn from our successes and failures. Currently, we are proceeding with an implementation model that is based upon our work on the PMTCT initiative so we are particularly interested in reflections on our efforts over the last year.

We anticipate that a Global AIDS Coordinator will be confirmed in the near future. Under the Global AIDS Coordinator's leadership and with insights from you and headquarters, we can expect improvements and innovations in our approaches to implementing the Emergency Plan. Therefore, the concepts presented for discussion should be considered a work-in-progress and not "set in stone." Section III of this document is simply a statement of what our current thinking is and a request for similar input from you.

Again, thank you for your tireless work and commitment.

Sincerely,

Joseph F. O'Neill, M.D., M.P.H.
Deputy Coordinator and Chief Medical Officer
Office of the Global AIDS Coordinator

SECTION I: UPDATE AND BACKGROUND ON THE EMERGENCY PLAN FOR AIDS RELIF

A. U.S. Leadership on Global HIV/AIDS

With the announcement in the Rose Garden on May 11, 2001, to launch the Global Fund to Fight AIDS, Tuberculosis and Malaria, President Bush signaled to the world his commitment to change the course of the HIV/AIDS pandemic. The President followed his founding support for the Global Fund with his $500 million International Mother and Child HIV Prevention Initiative (PMTCT) and increasing budget requests for bilateral HIV/AIDS programs. And in January, 2003, during his State of the Union address, President Bush made his historic announcement of the Emergency Plan for AIDS Relief which will provide $15 billion over the next five years to combat the global HIV/AIDS pandemic. Capitalizing on recent advances in anti-retroviral (ARV) treatment, the Emergency Plan for AIDS Relief will be the first global effort to provide advanced ARV treatment, care and prevention on a large scale in the poorest, most-afflicted countries. President Bush's vision, combined with strong Congressional leadership, support and interest, has now firmly placed the United States as the world's leader in bringing clinical treatment, care and support services, prevention and research programs to millions of individuals in Africa, the Caribbean and around the globe.

B. President Bush's Emergency Plan for AIDS Relief

Four months after proposing the Emergency Plan for AIDS Relief during his State of the Union Address, President Bush signed into law the U.S. Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (P.L. 108-25). This legislation authorizes the implementation of the Emergency Plan for AIDS Relief as well as participation in the Global Fund to Fight AIDS, Tuberculosis, and Malaria, and bilateral programs addressing HIV/AIDS, tuberculosis, and malaria.

As the President stated on April 29, 2003, "[F]ighting AIDS on a global scale is a massive and complicated undertaking. Yet this cause is rooted in the simplest of moral duties. When we see this kind of preventable suffering...we must act." President Bush and members of his Cabinet are personally very engaged in the fight against HIV/AIDS. As such the President, Secretary of State Colin Powell, and Secretary of Health and Human Services Tommy G. Thompson are closely following the planning for and implementation of the Emergency Plan for AIDS Relief. Their personal and institutional commitment to this initiative and belief in its ultimate success sets the stage for the United States Government to work in new and enhanced ways to provide material assistance and facilitate the collaboration and coordination needed to meet the daily challenges presented by this disease.

The $15 billion in funding requested for the Emergency Plan for AIDS Relief virtually triples the U.S. commitment to international AIDS assistance. Over the next five years, the Emergency Plan will provide $5 billion in funding to existing bilateral programs in 75 countries worldwide and $10 billion in new funding, which includes a $1 billion pledge to the Global Fund to fight AIDS, Tuberculosis and Malaria. In addition to being the first donor to the Global Fund, the

United States remains the largest contributor, with 40 percent of all cash contributions and 35 percent of pledges through 2008.

Under the President's Emergency Plan, the U.S. Government will significantly expand its work with fourteen nations in Africa and the Caribbean that are hardest hit by the AIDS pandemic. With this initiative, the U.S. will collaborate with these countries and provide the needed financial and technical assistance to bring much needed ARV medications and other drugs to individuals living with HIV/AIDS; increase HIV prevention efforts; establish broad and efficient networks to deliver drugs; build or remodel and equip clinics and laboratories; and train doctors, nurses and other health care professionals to treat individuals living with HIV/AIDS.

Specifically, the initiative is intended to*:

- Prevent 7 million new HIV infections (60 percent of the projected new infections in the target countries): The initiative will involve large-scale prevention efforts, including voluntary testing and counseling. The availability of treatment will enhance prevention efforts by providing an incentive for individuals to be tested.
- Treat at least 2 million HIV-infected people. The goal of the Plan is to provide therapy to all individuals who seek care and meet medical criteria for such care.
- Care for 10 million HIV-affected individuals and AIDS orphans: The initiative will provide a range of care and support services, including support for AIDS orphans.

*The goals were developed by assuming that nearly 50 percent of HIV-infected persons in the targeted countries will seek care by the fifth year of the program; this assumption is based on data from the U.S., Brazil and other programs. We further assumed approximately 20 percent of HIV-infected people require therapy immediately. Of course, since those who are ill from HIV-infection are more likely to seek care and treatment, it is possible that more than two million HIV-infected persons will receive therapy by the fifth year of the Emergency Plan.

These goals will be achieved only by working with new partners and expanding current bilateral programs. In addition, the development and/or refinement of national HIV/AIDS strategies and plans that integrate HIV/AIDS prevention, care and treatment is critical to create or enhance sustainable programs. As such, a fundamental component of the President's HIV/AIDS vision is the development of health care capacity. Therefore, both the PMTCT initiative and the Emergency Plan have a significant focus on providing treatment and developing health care infrastructure--both physical and human capacity. As this health care capacity is built for HIV/AIDS, sustainable capacity will be developed and enhanced to address other critical health issues.

C. Focused Initiative

The foundation of the Emergency Plan for AIDS Relief is an integrated continuum of prevention, care and treatment. This tripartite approach is clearly synergistic, since prevention programs are more effective as care and treatment become more available. In addition, HIV/AIDS prevention activities will encourage behavior change and follow the "ABC" model – "Abstinence, Be faithful, or use Condoms," in that priority order.

While the United States will continue to work throughout the world to combat HIV/AIDS, the Emergency Plan for AIDS Relief represents the first large-scale effort to provide advanced antiretroviral treatment, in addition to prevention and care, in the 14 countries most heavily impacted by the HIV/AIDS pandemic (Botswana, Côte d'Ivoire, Ethiopia, Guyana, Haiti, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, and Zambia). There are nearly 20 million HIV-infected men, women and children in these 14 countries -- almost 70 percent of the total in all of Africa and the Caribbean and 50 percent of global HIV infections. In addition to having a high burden of disease, the U.S. already has strong, existing bilateral programs in those countries.

The Emergency Plan for AIDS Relief will build on activities initiated under the PMTCT Initiative and treatment, and certain aspects of prevention, and care will be implemented based on a "network model" employed in countries such as Uganda. This model, which integrates appropriate prevention, care and treatment activities, will be implemented through a layered network of central medical centers that support satellite centers and mobile units (see Section III(B)(2)(d) The Network Model).

D. Legislative Highlights from P.L. 108-25

Global AIDS Coordinator (Sec. 102)
(See detailed account following this section)

Sense of Congress for Resource Allocation (Sec. 402(b))
Congress recommends that of the amounts appropriated, an effective distribution would be the following:

(1) 55 percent for treatment of individuals with HIV/AIDS;
(2) 15 percent for palliative care of individuals with HIV/AIDS;
(3) 20 percent for HIV/AIDS prevention, of which such amount at least 33 percent should be expended for abstinence-until-marriage programs; and
(4) 10 percent for orphans and vulnerable children.

Out-Year Spending Mandates (Sec. 403)
For FY 2006 through 2008, Congress requires that:

(1) Not less than 55 percent of the amounts appropriated for HIV/AIDS assistance be spent "...on therapeutic medical care of individuals infected with HIV, of which such amount at least 75 percent should be expended for the purchase and distribution of antiretroviral pharmaceuticals and at least 25 percent should be expended for related care."
(2) Not less than 33 percent of the amounts appropriated for HIV/AIDS prevention shall be expended for abstinence-until-marriage programs.
(3) Not less than 10 percent of the amounts appropriated for HIV/AIDS assistance "...shall be expended for assistance for orphans and vulnerable children affected by HIV/AIDS, of which such amount at least 50 percent shall be provided through non-profit, nongovernmental organizations, including faith-based organizations, that implement programs on the community level."

HIV/AIDS Prevention Activities (Sec. 301(a))
Prevention of HIV/AIDS through activities including—
"(A) programs and efforts that are designed or intended to impart knowledge with the exclusive purpose of helping individuals avoid behaviors that place them at risk of HIV infection, including integration of such programs into health programs and the inclusion in counseling programs of information on methods of avoiding infection of HIV, including delaying sexual debut, abstinence, fidelity and monogamy, reduction of casual sexual partnering, reducing sexual violence and coercion, including child marriage, widow inheritance, and polygamy, and where appropriate, use of condoms;
"(B) assistance to establish and implement culturally appropriate HIV/AIDS education and prevention programs that focus on helping individuals avoid infection of HIV/AIDS, implemented through nongovernmental organizations, including faith-based and community-based organizations, particularly those organizations that utilize both professionals and volunteers with appropriate skills, experience, and community presence;
"(C) assistance for the purpose of encouraging men to be responsible in their sexual behavior, child rearing, and to respect women;
"(D) assistance for the purpose of providing voluntary testing and counseling (including the incorporation of confidentiality protections with respect to such testing and counseling);
"(E) assistance for the purpose of preventing mother-to-child transmission of the HIV infection, including medications to prevent such transmission and access to infant formula and other alternatives for infant feeding;
"(F) assistance to ensure a safe blood supply and sterile medical equipment;
"(G) assistance to help avoid substance abuse and intravenous drug use that can lead to HIV infection; and
(H) assistance for the purpose of increasing women's access to employment opportunities, income, productive resources, and microfinance programs, where appropriate.

Eligible Entities (Sec. 301(d))
An organization that is otherwise eligible "...to receive assistance to prevent, treat, or monitor HIV/AIDS shall not be required, as a condition of receiving the assistance, to endorse or utilize a multisectoral approach to combating HIV/AIDS, or to endorse, utilize, or participate in a prevention method or treatment program to which the organization has a religious or moral objection."

Prostitution and Sex Trafficking (Sec. 301(e, f))
No funds made available to carry out P.L. 108-25 "...may be used to promote or advocate the legalization or practice of prostitution or sex trafficking. Nothing in the preceding sentence shall be construed to preclude the provision to individuals of palliative care, treatment, or post-exposure pharmaceutical prophylaxis, and necessary pharmaceuticals and commodities, including test kits, condoms, and, when proven effective, microbicides."

No funds made available to carry out P.L. 108-25 "...may be used to provide assistance to any group or organization that does not have a policy explicitly opposing prostitution and sex trafficking."

E. Global AIDS Coordinator

To ensure accountability for results, P.L. 108-25, the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003, authorizes the President to create a new, Ambassador-rank Coordinator for International HIV/AIDS Assistance at the Department of State. Acting as the President's representative, the Coordinator is responsible for overseeing all U.S. international HIV/AIDS assistance and coordinating the efforts of the various agencies and departments that deliver it. The Coordinator reports directly to the Secretary of State.

On July 2, President Bush announced his intention to nominate **Mr. Randall Tobias** to serve as the Global AIDS Coordinator. Mr. Tobias is awaiting Senate confirmation. The Department of State has established a Global AIDS Coordinator Planning Task Force (S/GAC), in response to the President's July 2nd announcement. The Task Force will manage planning for the establishment of the Office of the Coordinator Global AIDS Coordinator.

Mr. Tobias served as AT&T's Vice Chairman from 1986 until 1993 and, additionally, as Chairman and CEO of AT&T International from 1991 until 1993. He served as Chairman, President and CEO of Eli Lilly and Company from 1993 to 1999. Since stepping down from his post at Lilly nearly five years ago, he has focused his attention on a number of business, community and philanthropic interests and on teaching and writing. This year, Mr. Tobias authored *Put the Moose on the Table - Lessons in Leadership from a CEO's Journey through Business and Life.*

On August 14, 2003, **Dr. Joseph O'Neill** was a named Deputy Coordinator and Chief Medical Officer of the Office of the Global AIDS Coordinator to begin initial program design and implementation planning. Dr. O'Neill chairs the inter-agency PMTCT Steering Committee.

Prior to joining the Global Coordinator's Office, Dr. O'Neill served as the Director of the White House Office of National AIDS Policy from July 2002 to August 2003. In this role, Dr. O'Neill was principal advisor to President Bush on global and domestic HIV/AIDS issues, overseeing all global and domestic HIV/AIDS policy and programs and leading the implementation of the PMTCT initiative. Before coming to the White House, he was responsible for coordination of policy and management of the entire Department of Health and Human Services (HHS) HIV/AIDS portfolio, serving as Acting Director of the Office of HIV/AIDS Policy at HHS. From 1997 to the end of 2001, Dr. O'Neill served as Associate Administrator for HIV/AIDS in the HIV/AIDS Bureau, Health Resources and Services Administration, HHS. In this capacity, he directed the national Ryan White Comprehensive AIDS Resources Emergency (CARE) Act program, which provides medical care and treatment, social services and pharmaceuticals to people living with HIV/AIDS throughout the United States, the District of Columbia, Puerto Rico and U.S. Territories. He oversaw an annual budget of $1.7 billion and a staff that served more than 500,000 people a year.

Ambassador John E. Lange, a career member of the Senior Foreign Service with the rank of Minister-Counselor, brings to the Global AIDS Coordinator Planning Task Force a broad range of experience dealing with HIV/AIDS and other humanitarian and foreign policy issues in Africa, Latin America, and the Caribbean. Ambassador Lange's Africa experience includes assignments to U.S. Embassies in West Africa (Togo), East Africa (Tanzania), and Southern

Africa (Botswana). From 1999-2002, he served as U.S. Ambassador to Botswana and as Special Representative of the Secretary of State to the Southern African Development Community. Secretary of State Colin Powell lauded his leadership in bringing together seven U.S. Government agencies, the Government of Botswana, the media and international and local partners to create new avenues of cooperation on HIV/AIDS, and the Department of State recommended that all U.S. Embassies consider developing interagency AIDS programs based on the Gaborone model of "The Partnership." While at the U.S. Mission to the United Nations in Geneva, Lange managed U.S. Government assistance to international organizations for African and Caribbean refugee and humanitarian crises. He also worked in the Africa Bureau and the Western Hemisphere Affairs Bureau of the State Department as well as in the American Embassies in Mexico City and Paris. Ambassador Lange's most recent assignment was at the Foreign Service Institute, where he was Associate Dean for the State Department's Senior Seminar executive leadership program.

Contact Information:
Global AIDS Coordinator Planning Task Force, U.S. Department of State, 2201 C Street, N.W., Suite 1004, Washington, D. C. 20520, 202-647-6247 (Main Telephone No.), 202-647-5792 (Unclassified Fax No.).

F. FY '04 Appropriation Update

The Administration's fiscal year 2004 request of $2 billion for all international HIV/AIDS, tuberculosis and malaria activities, including $200 million for the Global Fund to Fight HIV/AIDS, TB, and Malaria, is the first installment in fulfilling the President's commitment of providing $15 billion over the next five years to address the HIV/AIDS pandemic in Africa, the Caribbean and around the world. Future budget requests will increase so that, at the end of 5 years, an *average* of $3 billion a year is funded.

Labor, Health and Human Services, and Education Appropriation Bill
The House passed the FY 2004 Labor, Health and Human Services, and Education Appropriations bill which funds global AIDS activities at the Department of Health and Human Services (HHS) on July 10. The Senate Committee on Health, Education, Labor and Pensions approved its bill June 26th and the Senate leadership has indicated it will bring the bill to the floor during the first weeks of September. The House bill provides $629 million for the Global Fund, bilateral activities and the PMTCT Initiative.

The Senate Committee bill provides $669 million for these activities. The House bill provides the requested level of $100 million for the Global Fund through HHS and the Senate bill provides $150 million. Both the House and Senate bills fund bilateral global AIDS activities at The Centers for Disease Control and Prevention within HHS at $154 million, the same as the FY 2003 level and $1 million below the President's request. Both bills provide the requested level for global AIDS research at the National Institutes of Health at $275 million. Neither the House nor the Senate bill fully funds the PMTCT Initiative at HHS ($150 million). The House is $50 million below the request and the Senate is $60 million below the request.

Foreign Operations, Export Financing, and Related Programs Appropriations Bill
The House has passed its bill for funding the U.S. Agency for International Development (USAID). The Senate has passed its bill out of the Foreign Operations Committee and the bill is waiting to go to the full Senate for vote. The House bill provides the overall funding that the President requested for the Emergency Plan for AIDS Relief, although the individual pieces do not match entirely. Most notably, the House provided $400 million for the US contribution to the Global Fund in FY 2004, while the President requested $100 million (there is an additional request of $100 million in the Labor/HHS bill, bringing the President's pledge to the Global Fund to $200 million for FY 2004). In addition, the House bill does not provide the expansive authorities for the Coordinator that were envisioned by the President and provided in the authorizing language nor does the bill provide a separate account in the Department of State.

The Senate Committee on Foreign Operations has fully funded the President's Emergency Plan and follows the authorities laid out in the authorizing language, including the establishment of a new account for the Coordinator at the State Department. Like the House bill, the Senate Committee has allocated the individual resources in a different manner than the President requested, most notably providing $250 million for the Global Fund.

SECTION II: U.S. GOVERNMENT INVOLVEMENT IN IMPLEMENTATION PLANS FOR THE EMERGENCY PLAN FOR AIDS RELIEF

Many of the 14 target countries of the Emergency Plan for AIDS Relief have a National HIV/AIDS Strategy (Strategic Plans). These strategies will naturally form the basis for on-going prevention, treatment and care activities, including those supported by the Emergency Plan.

These national strategic plans, however, vary in the degree to which they address HIV/AIDS treatment and, in particular, implementation of ARV treatment programs. In many cases, host governments may need encouragement and support to review and enhance these plans so that their particular vision for expanding treatment can be realized. It is important to emphasize that the U.S. Government's goal is not to establish a parallel implementation strategy for the Emergency Plan that is apart from the country's National Strategic or Implementation Plan. It is, rather, to assist in the development of a broad and robust care, treatment, and prevention approach that incorporates domestic, bilateral and multilateral resources. Working with the host government, the U.S. Government can then identify the specific activities and elements that can and should be supported by Emergency Plan funding. As such, the U.S. Government must be involved in designing operational implementation plans for which Emergency Plan resources are expected to be used. Moreover, the U.S. Government is prepared to provide appropriate technical assistance to facilitate the planning process.

In addition, the U.S. Government is fully supportive of a multi-sectoral approach to planning which will maximize efficiency and limit duplication and waste. As such, the process of creating or enhancing an implementation plan, based on the national strategy, should be inclusive. Preferably, local stakeholders, including faith- and community-based organizations, organizations of people living with AIDS, the private sector, academic institutions and bilateral and multilateral donors would be involved in the planning process alongside the host government and the U.S. Government. In many of the target countries, this process may be best facilitated by the establishment of an organizing body (such as an enhanced Global Fund Country Coordinating Mechanism, National AIDS Council or other multi-sectoral body).

Finally, to facilitate a coordinated national implementation plan and limit duplication of effort, it is important that a comprehensive catalogue of activities be established that identifies organizations and groups with significant resources and programs in each of the targeted countries. U.S. Government personnel should begin to work with the host government and national AIDS organizations/groups to develop a catalogue of activities by organization that provide, or will soon provide, greater than $5 million per year for HIV/AIDS activities. The table below is provided for reference only.

Domestic, Bilateral and Multilateral Partners and Their Activities

Partner	Primary Activities	Funding for 2004
Host Government		
GFATM		
UNICEF		
World Bank		

Partner	Primary Activities	Funding for 2004
DFID		
GTZ		
Clinton Foundation		
Gates Foundation		
Other – specify		

SECTION III: BRAINSTORMING SESSION

A. *Background for Brainstorming Session*

1. *Purpose of the Brainstorming Session*
The purpose of the brainstorming session is to allow for a focused group discussion on issues related to implementing the Emergency Plan for AIDS Relief.

The discussion should allow for the following points to be addressed:

- Solicitation of ideas, comments and feedback from U.S. Government field staff on ideas for implementing the Emergency Plan
- Identification of effective HIV/AIDS programs and activities in which aspects of the Emergency Plan can be quickly implemented
- Identification of major issues and questions about the Emergency Plan from U.S. Government field staff
- Current status of planning and program activities in the host country relevant to HIV/AIDS prevention, treatment and care

2. *Participants*
HHS, State Department and USAID personnel and those on temporary duty assignments from HHS and USAID, should set aside time during the visit (recommendation is one-day) to have a substantive discussion about implementing the Emergency Plan for AIDS Relief. At a minimum, those HHS and USAID staff directly responsible for PMTCT, the Emergency Plan and other HIV/AIDS activities should attend this discussion, i.e., HHS Global AIDS Program staff and USAID health officers and AIDS advisors. It is strongly recommended that other critical USG field staff be invited to participate in the session, including the Ambassador or their representative(s), other U.S. Embassy staff and agency program and procurement officers. Technical Assistance teams will make time for a meeting with the Ambassador, should s/he desire, to explain the process and to seek advice and input from the Ambassador.

3. *Special Note to Facilitators and Participants*
Your participation in this brainstorming session is deeply appreciated. The brainstorming session should be viewed as the beginning of a dialogue about implementing the Emergency Plan and the first of many opportunities to provide feedback and comments about the implementation process. We anticipate that many questions will arise during the discussion that will need to be brought back to headquarters for clarification. Given this, we look forward to receiving your ideas, comments and questions and to future discussions on implementing the Emergency Plan.

A list of topics follows which is offered as a guide for discussion. The list should not limit your discussion and other relevant topics should be addressed as they arise. Although the discussion and summary from the sessions/s should cover each of the topics mentioned, the purpose of the discussion is to receive substantive input from U.S. Government field staff.

B. Concepts for Rolling Out the Emergency Plan for AIDS Relief

1. *Mechanisms for Rapid Action*

We will have to develop innovative approaches to move money quickly to get prevention, care and treatment services to people as soon as possible. Furthermore, a major goal of the Emergency Plan is to develop local capacity in each of the targeted countries to ensure the sustainability of programs. Headquarters has been considering approaches to meet these two goals, and we are requesting input from U.S. Government field staff on these approaches as well as ideas for alternative approaches.

One concept is to issue large, short-term, central procurement solicitations for agreements (performance contracts, grants, cooperative agreements or other funding mechanisms) for prevention, care and treatment activities (in particular those outlined below). These procurement opportunities would target U.S.-based or local organizations, including faith-based, community-based and other organizations with experience operating for an extended period of time on the ground in the relevant program areas in the 14 countries. We greatly appreciate assistance from U.S. Government field staff in identifying such opportunities and specifics on how to develop operational arrangements.

Before discussing concepts of procurement mechanisms for rapid action, it might be helpful to run through the following sections "Opportunities for Rapid Action" and "Baseline Assessments and Health Facility Surveys," keeping in mind the need for financial arrangements to move quickly with new partners, and return to this topic at the end of the discussion.

2. *Opportunities for Rapid Action*

a. *Treatment*

To move quickly to implementing the Emergency Plan for AIDS Relief, it will be necessary to identify **existing** activities that could be rapidly expanded. U.S. Government field staff is in the best position to identify opportunities for rapid scale-up. This will have particular relevance for treatment. For example, UNAIDS estimates that approximately 15 percent of individuals with HIV who require ARV treatment in resource poor settings receive care -- only three percent of these are currently receiving ARV therapy. Therefore, opportunities may exist to rapidly add ARV treatment, when appropriate, to a significant number of patients already being followed in care systems. An early high priority of the Emergency Plan is to identify such opportunities. In addition, the Emergency Plan will build on activities the field is already implementing for the President's PMTCT Initiative; there should be opportunities from these activities to move quickly, but appropriately, to place patients on ARV therapy. Among the specific opportunities for ARV therapy we would like to consider are the following, which focus on sites **that are already treating** patients today. In each case, we would like information not just on which organizations can move quickly on providing ARV therapy or which organization can

provide therapy to more patients if given more resources, but where (what specific clinics, hospitals, factories) they can best deliver such treatment.

- PMTCT "Plus" and advanced PMTCT programs established through the President's PMTCT Initiative or other existing mechanisms;
- Current sites that are treating patients correctly with ARV therapy or networks of such sites with capacity to expand;
- Health care facilities that provide good HIV/AIDS or general health care that are not currently providing ARV therapy but that could move quickly to treat patients appropriately with ARVs (faith-based hospitals and clinics will be particularly good areas for focus);
- Augmentation of sites that are currently conducting biomedical research on HIV/AIDS (in particular through U.S. Government support) that could add appropriate treatment of patients with ARV therapy to their activities;
- Expansion of ARV therapy programs provided through business-related groups, including those at factory or farm sites. (We are particularly looking for innovative thinking about how the U.S. Government could support such activities by extending them to non-employee/employee dependents, by assisting indigenous small businesses/small business consortia, by involving unions where appropriate, etc.)

b. *Prevention*

In the first year of the President's Emergency Plan for AIDS Relief, we must thoroughly explore opportunities to rapidly scale up abstinence and behavior change education for youth. As with treatment activities, headquarters relies on the knowledge and experience of the field to identify sites and programs that could move quickly. We would greatly appreciate particular emphasis on faith-based opportunities.

Rapid implementation of safe blood programs and precautions against medical transmission of HIV will be also necessary in the first year. We would like the field to identify specific groups and programs active in the 14 targeted countries that could expand quickly to develop and implement a national safe blood program with demonstrable results within the first year of the Emergency Plan.

c. *Care*

Although all aspects of care are important, we strongly encourage particular emphasis on opportunities to rapidly scale up programs for AIDS orphans. Although palliative care is likely to require much foundational groundwork, we would appreciate identification of existing palliative care programs, such as hospices or home care programs for patients with AIDS.

d. *The Network Model*

As noted in Section I, President Bush has outlined his vision for a network model for treatment, and aspects of care and prevention that occur in health facilities (e.g. secondary prevention, blood safety, safe medical practices, treatment of opportunistic infections, etc). This vision has been codified in the authorizing legislation (P.L. 108-25). Within each country targeted by the Emergency Plan, the network referral system exists to some degree for health care, e.g. national referral hospitals, regional or provincial hospitals, different levels of clinics, etc. And many national strategies for HIV/AIDS identify centers for excellence or other referral centers around which a referral network for prevention, care, treatment, training and even research is envisioned. There are also faith-based and other networks in certain countries. A broad parameter sketch of a network model is provided below. Thoughts from the field on the network model and the unique application of it in their country are essential to rolling out the Emergency Plan. Specific issues to be discussed are:

- Does the national strategy include components of a network model? If so, how?
- How would a network model fit into the implementation plan in your country?
- Do networks exist already for HIV/AIDS or health care that could be rapidly employed in the Emergency Plan, e.g. the public health system, faith-based networks?
- Are there particular facilities that are easily identified as Central Medical Centers, primary, secondary or tertiary satellites?

Network Model: Layering of Expertise*

	Infrastructure	Personnel	Services
Tertiary satellites/ mobile units	Clinical evaluations	Medical assistant or health visitor	Home visits Basic clinical evaluations and follow-up Traditional healers
Secondary satellites /mobile units	Basic labs Basic clinical care	Junior doctor, nurse practioner or medical assistant Counsellors Basic lab technologists Pharmacists	Clinical evaluation Care including treatment for TB, malaria and HIV-related infections Prevention including PMTCT Plus all above
Primary Satellites	Advanced labs Advanced clinical care	Doctors Counsellors Lab technologists Pharmacists	Basic clinical care Basic antiretroviral therapy Plus all above
Central Medical Centers	State of the art labs High level clinics and hospital	Specialist doctors and nurses Trainers Counsellors Managers Pharmacists Lab technologists	Complete clinical care Complicated antiretroviral therapy and care Plus all above

PMTCT = prevention of mother-to-child-transmission
*Model currently being implemented successfully in Uganda

3. *Baseline Assessments and Health Facility Surveys*

Solid baseline assessments will be necessary for an effective evaluation of progress under national implementation strategies with support from the Emergency Plan. We greatly

appreciated U.S. Government field staff's rapid response to the assessment requests for the PMTCT Initiative. Assessments for the Emergency Plan will likely require resources to complete. We appreciate thoughts from the field on how to proceed, in particular on procurement mechanisms and financial arrangements. As mentioned in Section II of this document, part of the assessment will be a catalogue of resources and activities by other organizations and donors.

A fundamental aspect of the Emergency Plan is to enhance current public health and medical infrastructure – physical and human – to provide HIV/AIDS prevention, care and treatment. The President's vision, mandated in P.L. 108-25, is to develop a referral network for HIV/AIDS – built on, and similar to, the referral structure of the health care system that already exists to some degree in all of the 14 countries. It will be essential in the development of an operational implementation plan to identify the specific sites that will participate in the network as it rolls out, and to evaluate the enhanced capacity of those facilities over time through the Emergency Plan and each national strategy. Targeted facility surveys can help identify appropriate sites for the network, and will provide a baseline assessment for subsequent evaluations.

We request and greatly appreciate discussion by U.S. Government field staff of the following:

- Existing facility surveys in each country;
- Available current mechanisms for conducting surveys (e.g. central contracts);
- The type of survey currently appropriate to each country, given the network model (e.g. is current capacity/programming sufficient for a survey of only CMCs and a few satellites or an entire network?);
- How well the PMTCT assessment/survey process worked.

Please note, a national survey of all facilities is not likely to be appropriate – the HIV/AIDS network is unlikely to cover more than a relatively small percent of total health facilities in many countries for the first five years. However, input from U.S. Government field staff on this is critical.

4. *Diplomatic Outreach and Public Diplomacy*

We would greatly appreciate input from U.S. Government field staff on the types of information they find helpful and unhelpful. Specifically:

- Would greater use of official State Department cables to relay information be of use?
- Is the monthly email update for the PMTCT Initiative useful? Suggested changes or enhancements?
- What support does U.S. Government field staff need for effective public diplomacy?
- How can we in Washington help you get our message(s) about the Emergency Plan out better and to more people?
- What should we in Washington be doing with the media that people in your host country see/hear/read?

Finally, a cable addressing much of what was discussed in Section II will be sent to the U.S. Embassies in the 14 targeted countries. We would appreciate rapid diplomatic outreach in this regard to the appropriate host government officials in Presidential/Prime Ministerial offices, Ministries of Health, National AIDS Councils, and as appropriate, Ministries of Higher Education and other relevant entities.

C. *Continuing Ideas for Brainstorming Session*

Note: While the following list is long, it is meant to be illustrative. Our purpose is to get the best thinking of those who know the on-the-ground reality.

1) Of the current opportunities and constraints to expanding access to AIDS treatment -- what is working and what is not?

   a) Host country governments and non-governmental sectors.
      i) What is each host country government's policy and thinking on AIDS treatment at this time? What are its priorities? What strategies, policies, plans, HIV-reporting and surveillance systems, and guidelines are in place?
      ii) How ready is the government to deliver ARV therapy in government-operated or government-contracted facilities?
      iii) How ready are non-government providers, especially faith-based hospitals and clinics, to offer ARV therapy?
      iv) How well does the existing collection of public and private sites that are treating patients today with ARV therapy reflect the network model that is the primary preferred approach for implementing the President's Emergency Plan for AIDS Relief?

   b) What constraints or barriers do we need to address now to meet the 2008 goals of the Emergency Plan?
      i) What training and human resource development needs to start now (e.g., doctors, nurses, community health workers, hospital and clinic administrators, Ministry policy-makers and administrators, etc.)?
      ii) What physical infrastructure improvements need to be started now, (e.g. counseling rooms, laboratories, secure pharmacy space, clinics, dispensaries, etc.)?
      iii) What government policies and regulations need to be addressed (e.g. import restrictions; taxes or tariffs on medicine; lack of registration of key pharmaceuticals with drug regulatory authorities; labor laws or collective bargaining arrangements; or restrictive or outdated medical practices, such as policies on who can perform HIV tests or draw blood, etc.)?
      iv) What information-reporting systems need to be started or improved to obtain needed data, to monitor program processes and outcomes, including tracking patients on ARV therapy?
      v) What specific cultural practices or attitudes are barriers to care for HIV patients?

vi) How well is the Global Fund Country Coordinating Mechanism, National AIDS Council or other planning bodies functioning, and how representative and inclusive are they?

c) What is working in current U.S. Government activities?
   i) PMTCT initiative
   ii) Other programs, in particular related to care and treatment
   iii) Communication, both external and internal and between Washington and Post
   iv) Inter-agency collaboration
   v) Other

d) What requires more work in current U.S. Government activities – specific suggestions for improvement are encouraged.
   i) PMTCT initiative
   ii) Other programs
   iii) Communication, both external and internal and between Washington and Post
   iv) Inter-agency collaboration
   v) Other, such as agencies' contracting authority, information-reporting and surveillance systems.

2) Other Bilateral and Multilateral Donors
   a) What funding and resources are the World Bank (Multi-Country AIDS Program), the Global Fund, and other bilateral donor programs supporting in AIDS prevention, treatment and care in each country? For other bilateral donors, please pay special attention to infrastructure projects (Japan) and hospital twinning (France, Spain, Italy, Luxembourg, Brazil). Please note if bilateral donors are routing their funding through basket-funding arrangements/direct budget support to Ministries.

3) Coordination
   a) How can the U.S. Ambassador and the U.S. Government and agencies work with all the other partners in country to avoid duplication of efforts and assure the best use of funds? If other donors, such as the Global Fund, are covering specific areas of a country, should we shift our activities to other regions?

4) What do HHS and USAID field staff need from headquarters to assist them in implementing the Emergency Plan?
   a) Policy guidance on specific implementation issues
   b) Technical Assistance
   c) Contracting and other administrative support
   d) Communications and information-sharing
   e) Other

5) Developing a long-term response for HIV/AIDS treatment and care: Given the discussion above, what steps should we take in the next three months to start the process of long-range planning and/or coordinating with existing long-range plans?

6) Other considerations or ideas U.S. Government field staff might have.

C. *Summary to Headquarters*

1) A written summary of the discussion outlined will be prepared by the Technical Assistance team and submitted within one week of each Technical Assistance team visit to Dr. Joseph O'Neill at the Global AIDS Coordinator's Office. The summary will indicate who participated in the discussion and reflect the brainstorming and information sharing that occurred during the session. The Technical Assistance team will ensure that participants in the discussion have the opportunity to comment on the draft summary before it is finalized for submission to the Global AIDS Coordinator's office. Please note that the summary is not viewed as official or formal policy guidance from the field to headquarters; but rather, a summary of the comments, suggestions, and ideas that are raised during the brainstorming session. Finally, it is suggested that the Technical Assistance team members identify a note-taker so that U.S. Government field staff are free to fully participate in the brainstorming session.

2) Country information: If readily available, Technical Assistance teams should obtain copies of the following documentation:
   a) National ARV policies (including information on drug registration, if possible); and
   b) Current treatment protocols, including protocols for breast-feeding for HIV-positive women.

3) Policy/situation analysis: If available any comment/documentation on the following would also prove useful:
   a) Drug registration process in each country, including approval and use of generic drugs;
   b) Tax and tariff structure on medical imports: pharmaceuticals, medical equipment, medical supplies;
   c) Trade policy: pharmaceuticals, medical equipment, in particular whether the country has used or has announced intention to use a compulsory license to procure medicine;
   d) Pharmaceutical production: Does the country produce patented or generic versions of ARVs and other important medications? If so, is any of the production done in government-run or –owned facilities? Who does quality-control for pharmaceutical production in the country?;
   e) Condition of basic infrastructure: roads, electricity, water, sewage, waste removal; and
   f) Military / security environment (with respect to protecting supply chain).

Emmy B. Simmons

Assistant Administrator for Economic Growth, Agriculture and Trade

Emmy B. Simmons was sworn in on April 2, 2002, as assistant administrator for economic growth, agriculture and trade of the U.S. Agency for International Development (USAID).

A member of the Senior Foreign Service, Ms. Simmons has more than 30 years experience in international agriculture and economic development. Since 1997, she has served as USAID's deputy assistant administrator in the former Bureau for Global Programs, Research and Field Support, where she heads the Center for Economic Growth and Agricultural Development.

From 1994 to 1997, Ms. Simmons was senior program officer for USAID's mission in Moscow where she oversaw an aid portfolio of more than $1 billion. From 1991 to 1994, she served in USAID's Regional Office for East and Southern Africa as a supervisory program economist. She also has served as a supervisory agricultural officer for Mali and as a regional agricultural advisor for West Africa, in addition to holding a number of supervisory positions in the Africa Bureau in USAID's Washington headquarters.

Ms. Simmons began her career as a Peace Corps volunteer in the Philippines in the 1960s. She later held a number of agricultural research and nutrition positions in Nigeria and Liberia until 1978, when she joined USAID as an agricultural economist.

She is a graduate of the University of Wisconsin-Milwaukee and has a master's degree in agricultural economics from Cornell University, where she won the prestigious American Association of Agricultural Economics award for best master's thesis.

Ms. Simmons is fluent in French and conversant in Russian, the African language of Hausa, and the Filipino language of Ilocano.

Born in Suring, Wisconsin, Simmons resides in the District of Columbia with her husband, Roger, a recently retired 20-year veteran of USAID.

APPR	ES	( )	
DRAFT	PR	( )	
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CLEAR	LB	( )	
CLEAR		( )	

UNCLASSIFIED

AID/PAICO/EGAT:PATRICIA RADER:LM:AWIDE
9/25/2003 712-1639
AID/AA/EGAT:ESIMMONS

USAID/AFR/DP:JSMITH
USAID/E&E/PO:SGROSSMAN
USAID/LAC/SPO:BCYPSER
USAID/ANE/SPOTS:LBRADY

ROUTINE AWIDE

ADM AID ATTENTION USAID MISSION DIRECTORS AND PROGRAM OFFICERS

E.O. 12958: N/A

TAGS:

SUBJECT: NEW IMPROVED EGAT SUPPORT TO MISSIONS

DEAR COLLEAGUE:

1. THE AGENCY REORGANIZATION IS STILL NOT COMPLETELY OVER - BUT WE IN THE BUREAU FOR ECONOMIC GROWTH, AGRICULTURE, AND TRADE (EGAT) ARE INCREASINGLY FEELING THAT WE UNDERSTAND WHAT BEING A "PILLAR" MEANS. WITH THE WORLDWIDE MISSION DIRECTORS' CONFERENCE COMING UP, I AM EAGER TO EXPAND OUR DIALOGUE WITH MISSIONS ON HOW EGAT CAN MORE FULLY MEET OUR MANDATE FOR FIELD SUPPORT, ESPECIALLY GIVEN THE WIDE ARRAY OF SECTORAL AND SUBSECTORAL ISSUES THAT WE ENCOMPASS. WE HAVE, OF COURSE, BEEN PROVIDING A GOOD DEAL OF SUPPORT TO FIELD PROGRAMS ALL ALONG BUT I NOW WANT TO PUT IN PLACE A MORE COHERENT, COMPREHENSIVE - YET FLEXIBLE - FIELD SUPPORT PLAN WHICH REFLECTS THE NEEDS OF ALL MISSIONS AND WHICH TARGETS OUR RESOURCES MORE EFFICIENTLY AND STRATEGICALLY.

2. FIELD SUPPORT IS OUR HIGHEST PRIORITY. WE WANT TO SERVE YOUR NEEDS WITH ALL THE KINDS OF FIELD SUPPORT WE CAN PROVIDE: PEOPLE - THEIR EXPERTISE AND SERVICES, CONTRACT AND GRANT MECHANISMS, INFORMATION ON KEY ISSUES, ANALYTICAL TOOLS, IMPLEMENTATION BEST PRACTICES, TRAINING, AND RISK-SHARING THROUGH MATCHING GRANTS AND THE LIKE. WE ARE ALSO THINKING ABOUT INCREASING OUR USE OF VIDEOCONFERENCING FOR MORE DIRECT PROFESSIONAL DISCUSSION OF ISSUES - AS WE UNDERSTAND THAT ALL EMBASSIES ARE RAPIDLY EQUIPPING THEMSELVES FOR THIS SERVICE. WE ALSO SEE SOME POSSIBILITIES FOR INCREASING THE VOLUME, QUALITY, AND UTILITY OF BOTH PRINT AND WEB PUBLICATIONS - WITH AS MUCH INPUT FROM THE MISSIONS AND THEIR IMPLEMENTING PARTNERS AS FROM OUR OWN STAFF.

3. IT'S OUR IMPRESSION THAT MUCH FIELD SUPPORT FROM WASHINGTON OVER THE YEARS HAS BEEN THE PRODUCT OF LONGSTANDING PERSONAL AND PROFESSIONAL RELATIONSHIPS

BETWEEN INDIVIDUALS IN THE MISSIONS AND IN WASHINGTON. WHEN PLANNING TO MEET FIELD NEEDS DOES TAKE PLACE, IT TENDS TO BE CARRIED OUT AT THE OFFICE OR OFTEN AT THE INDIVIDUAL LEVEL. FIRST-COME, FIRST-SERVED CAN BECOME THE OVERRIDING GUIDING PRINCIPLE AND IMPORTANT NEEDS WHICH EMERGE LATER IN THE YEAR MAY BE ECLIPSED BY LESS IMPORTANT REQUESTS AGREED TO EARLY IN THE YEAR. IN THE END, THIS PROCESS DOES NOT ENSURE THAT WE HAVE MATCHED EGAT BUREAU RESOURCES TO THE STRATEGIC PRIORITIES OF THE AGENCY, THE REGIONAL BUREAUS AND THE FIELD MISSIONS.

4. FURTHER, MISSION STAFF OFTEN DON'T KNOW WHAT'S AVAILABLE IN WASHINGTON, OR WHO ARE THE "RIGHT" CONTACTS TO SEE WHAT'S AVAILABLE, AND THEY MISS OPPORTUNITIES TO EXPLOIT THE VERY REAL RESOURCES AVAILABLE TO THEM. ONE WAY FOR US TO ADDRESS THIS IS TO PUT OUR EGAT USERS' GUIDE ON OUR WEBSITE (WWW.INSIDE.USAID.GOV/EGAT). WE'VE DONE THAT. ALL SUPPORT MECHANISMS, THEIR DESCRIPTIONS AND POINTS OF CONTACT ARE NOW AVAILABLE ON LINE. ANOTHER STEP IS TO POST ALL OUR TECHNICAL STAFF, THEIR AREAS OF TECHNICAL EXPERTISE AND GEOGRAPHIC EXPERIENCE. WE'VE DONE THAT AS WELL. EACH OFFICE HAS NAMED REGIONAL COORDINATORS FOR EACH REGION. AND THAT CHART, FOR QUICKLY FINDING AN APPROPRIATE POINT OF CONTACT, IS ALSO UP ON THE EGAT WEBSITE.

5. THESE STEPS HELP SET THE STAGE, THEY SHOW WHAT'S AVAILABLE. BUT I WANT US TO BE MORE PROACTIVE.

6. IN THE NEXT COUPLE OF WEEKS, WE'D LIKE TO QUERY YOU AS TO WHAT TDY SERVICES AND SUPPORT YOU WOULD LIKE TO RECEIVE FROM US OVER THE COMING YEAR. WE INTEND TO KEEP THIS EXERCISE SIMPLE AND TRANSPARENT -- NOT A MONOLITHIC, OVERLY-CENTRALIZED PLANNING PROCESS. IT WILL NOT CURTAIL THE NORMAL ONGOING DIALOGUE AMONG FIELD AND WASHINGTON-BASED TECHNICAL STAFF. BUT IT WILL GIVE US AN OPENING SNAPSHOT OF WHAT YOU THINK WE SHOULD BE SPENDING OUR TIME ON OVER THE COMING YEAR AND IT WILL ALLOW US TO PLAN OUR YEAR ACCORDINGLY. AFTER WE RECEIVE YOUR RESPONSES TO WHAT TDY SERVICES YOU WOULD LIKE, WE WILL REVIEW THESE WITH THE RESPECTIVE REGIONAL BUREAUS TO SET UP PRIORITIES. WE WILL REFINE THE SPECIFIC TECHNICAL ASSISTANCE TO BE PROVIDED AND HONE IN ON SPECIFIC TDY DATES THROUGH ONGOING CONSULTATION AS THE YEAR PROGRESSES.

7. TO FIGURE OUT WHAT WE PRIORITIZE AND HOW, WE NEED YOUR FEEDBACK. I LOOK FORWARD TO MOVING AHEAD ON OUR MISSION SUPPORT SURVEY AND TO SEEING AS MANY OF YOU AS POSSIBLE DURING THE UPCOMING MISSION DIRECTORS' CONFERENCE TO GET YOUR IDEAS ABOUT OTHER STEPS THAT WE SHOULD TAKE.

EMMY SIMMONS
ASSISTANT ADMINISTATOR
BUREAU FOR ECONOMIC GROWTH, AGRICULTURE AND TRADE YY

Roger P. Winter

Assistant Administrator for Democracy, Conflict and Humanitarian Assistance

Roger P. Winter was sworn in on January 31, 2002, as assistant administrator for democracy, conflict and humanitarian assistance of the U.S. Agency for International Development (USAID).

Mr. Winter was director of USAID's Office of Foreign Disaster Assistance from May 2001 until assuming his present position.

Before joining USAID, Mr. Winter served as executive director of the U.S. Committee for Refugees (USCR) from 1981 to 2001. USCR is a non-profit, humanitarian organization that works to protect and assist refugees, asylum-seekers and displaced people around the world. As executive director, Winter was responsible for USCR's programs serving refugees, displaced people and conflict victims in the United States and overseas.

Mr. Winter has far-reaching field experience in Africa, Southeast Asia, the former Soviet Union, and Central America. He has researched and written extensively and conducted media outreach to raise the profile of refugee issues around the world.

He also served as director of the U.S. Office of Refugee Resettlement in the former Department of Health, Education and Welfare during portions of both the Carter and Reagan administrations. Prior to that, he worked 10 years as an official with the state of Maryland. His early career was devoted to anti-poverty and civil rights programs in Boston, Chicago and Central Connecticut.

Mr. Winter has a bachelor's degree from Wheaton College in Illinois and is the recipient of an honorary doctor of laws degree from Holy Family College in Pennsylvania.

He and his wife, Delorise Allen Winter, live in Woodbine, Md. They have three children and two grandchildren.

R. Stephen Brent

Director, Office of Development Evaluation and Information,
Bureau for Policy and Program Coordination

Since April 2003, Mr. Brent has been the Director of the Office of Development Evaluation and Information in USAID's Bureau for Policy and Program Coordination. He is responsible for lead analytic and information services for USAID, with special attention to new directions in development policy.

From 1999 to 12003, Mr. Brent was the associate director with USAID/Egypt where he led programs in management and information technology development, basic education, health and family planning, and governance. The mission had an annual program budget of $95 million. Mr. Brent led innovative approaches to education reform. In addition, he worked closely with top Egyptian business leaders on skills for young people and executive management education, and worked with the Minister for Information Technology and U.S. IT companies on IT training and development of a technology university.

From 1992 to 1999, be was the team leader for democracy/governance with USAID/South Africa. The mission's annual program budget of $17 million was mainly for grants to South African and American NGOs in elections support, civil society, administration of justice, and local government. The mission's civil society program was cited as a model for the Agency.

As the Special Assistant to several Assistant Administrators of the Africa Bureau in Washington during 1987-1992, Mr. Brent coordinated Hill relations, wrote speeches for the AA, and led the development of the Bureau's early democracy/governance efforts. He also led an inter-Bureau task force to manage assistance for the 1992 Southern Africa drought, which prevented major loss of life.

Mr. Brent worked for Senator Nancy Landon Kassebaum from 1985 to 1987 as a legislative assistant to the chair of Africa Subcommittee of Senate Foreign Relations Committee. He was involved in 1986 South Africa legislation and organized hearings on USAID policy and management issues.

As a U.S. Naval Officer (1969-1975), Mr. Brent served one year in Vietnam (1971) managing economic support activities for families of Vietnamese Navy personnel. In Washington he served as operations analyst at Center for Naval Analyses (a civilian think tank for the Navy) and as a systems analyst at the U.S. Arms Control and Disarmament Agency.

Mr. Brent received a doctor's degree and a master's degree in public policy from Harvard University's Kennedy School of Government, where he did his thesis on U.S. policy toward South Africa. He received a bachelor's degree in economics from Duke University, and attended Naval Postgraduate School, where he received a master's degree in operations analysis.

Mr. Brent's publications include: "Aiding Africa," *Foreign Policy*, 1990; "South Africa – Tough Road to Prosperity," *Foreign Affairs*, 1996.

9/30/2003

Current MCA Legislative Status

Appropriations Process:

- The House has passed their version of the FY 2004 Foreign Operations Appropriations bill with $800 million for MCA. The Senate Appropriations Committee has reported its version of that bill with $1 billion for MCA. However, the Senate has not yet considered that bill.
- Due to the slow pace of appropriation bills in the Senate this fall, it is now expected that the Foreign Operations bill will not be on the Senate Floor until October. This means that the conference report will not be completed on this bill until late October and perhaps even later.

Authorization Process:

- The House has passed authorization legislation for MCA while similar Senate legislation remains stymied on the Senate Floor due to unrelated matters. While Chairman Lugar and many of his fellow SFRC Senators are trying to move the bill, it will be very difficult to find Senate Floor time in the midst of the appropriations process.
- While the House authorizers are getting more comfortable with including MCA authorization legislation in the Foreign Operations Appropriations bill, their Senate counterparts remain opposed to that strategy.

Next Steps:

- The Administration is focusing its efforts on pushing Congress for the approval of substantial appropriations for MCA, and on conveying its priorities to the authorizers in reconciling the differences between the chambers on authorization legislation.

MCA Authorization Bills
September 8, 2003

	President's Bill	House (passed)	Senate
Independence	Independent MCC	Independent MCC	MCC within the Executive Branch. CEO reports directly to the Secretary of State similar to USAID relationship to State.
Board Composition	3 member Board • State (chair), Treasury, OMB	13 member Board • 5 USG members (State [chair], Treasury, USAID, CEO of the MCC, USTR) • 4 members appointed from a list supplied by Congress • 4 non-voting members (OMB, OPIC, TDA, Peace Corps)	5 member Board • State (chair), Treasury, USAID, CEO of the MCC, USTR
Board & CEO Duties	• Board is responsible for selecting MCA countries and will "direct the exercise of all the functions and powers of the Corporation". • The CEO will "exercise the functions and powers vested in the CEO by the President and the Board".	• The role of the Board is diminished as compared to the President's bill. The Board does not determine country selection as in the President's bill. • The CEO is explicitly directed to make decisions on indicators, country eligibility, termination of assistance, etc.	• Board develops indicators, selects countries, selects proposals, and approves contracts. • CEO, "in consultation with the Board, directs the performance of all functions and the exercise of all powers of the Corporation, including ensuring that assistance under this division is coordinated with other United States economic assistance programs."

	President's Bill	House (passed)	Senate
Eligibility	• Assistance will go only to poor countries with a demonstrated commitment to governing justly, investing in people, and economic freedom. • Income eligibility requirements are specifically outlined in the section-by-section analysis of the bill. (not in the bill itself). Uses World Bank definitions of lower and lower middle income countries.	• Allows up to 15% of MCA funds to go to near-miss countries. USAID will administer MCA assistance to these countries. • Caps MCA assistance to lower middle income countries at 20%. • Defines lower middle income countries according to the World Development Report ($746-$2,975 per cap). This results in more countries being designated as lower middle income than in the President's proposal. • Requires lower middle income countries to identify their budget contribution to the MCA program. Contribution must be additional to budget allocations from the previous year.	• Allows up to 10% of MCA funds to go to assist near-miss countries so they may become eligible. • In order for lower middle income countries to participate in 2006 and beyond, the MCA must receive an appropriation of more than $5 billion. If so, the amount of funding that can go to lower middle income countries is capped it at 20% of the total appropriation. • Uses World Bank definition of lower middle income countries (same as sectional analysis of President's bill).
Personnel Authorities	Allows the CEO and the Director of OPM to establish a flexible personnel management system for the MCC.	Does not allow the CEO to develop a new personnel system.	Personnel authorities similar to the President's bill. Most notable restriction is on compensation. The salary of any MCC employee cannot exceed the salary of the CEO and cannot exceed the salary of a comparable employee of another agency.
MC Contract	Specifies seven elements that each Contract will include: 1. specific objectives; 2. responsibilities of the eligible country and the US in the achievement of objectives; 3. regular benchmarks to measure progress and description of how objectives will be sustained once Contract ends; 4. a plan and a timeframe that describes how and when objectives will be met; 5. role and contribution of the business community and other members of civil society; 6. contribution of other donors; 7. plan to ensure financial accountability.	• Calls document "Compact" rather than "Contract" • Specifies seven elements similar to President's bill with the addition of identifying intended beneficiaries, disaggregated by gender, age, and income level.	• Elements similar to President's bill with requirement of a statement that the Contract is not a legally binding obligation on the MCC or USG.

	President's Bill	House (passed)	Senate
Grant Selection	Does not specify process (leaving Board and CEO to develop process).	Includes provision that prescribes competition standard in awarding grants and requires CN of each grant or contract of more than $5 million.	Grant applications submitted to Board rather than Corporation.
Reporting & Notification Requirements	• All contracts and performance evaluations will be publicly available via the Internet.	• Mandates over 12 different reports and notifications by the MCC to Congress, including notifying Congress on a complete draft of each contract before signature.	• Requires the MCC to publish proposed indicators for country selection 60 days before selection and consider comments. • Requires the President to submit an annual report to Congress. • Subjects the MCC to a 15 day notification on the allocation and transfer of MCA funds.
Advisory Board	• No Advisory Board. Preference for an advisory board to be established through an Executive Order rather than legislated.	• Seven member advisory board that is administratively burdensome	• No Advisory Board
Other authorities	• Authorizes $1.3 billion in FY04 and "such sums as may be necessary for subsequent fiscal years". • No Sunset Provision. • Grants notwithstanding authority	• Authorizes $1.3 billion in FY04, $3 billion in FY05, and $5 billion in FY06. • Sunset Provision: MCA authorities terminate in 2007. • Does not grant notwithstanding authority.	• Authorizes $1 billion in FY04, $2.3 billion in FY05, and $5 billion in FY06. • No Sunset Provision. • Grants notwithstanding authority
Prohibitions and Restrictions	• Prohibits assistance to countries that are ineligible to receive assistance under Part I of the Foreign Assistance Act of 1961. Presidential waivers would apply to the MCA.	• Any Presidential or Sec. of State waiver of prohibitions under the FAA would not apply to the MCA. • Subjects MCC to Buy America Act for goods and services procured in the U.S. and also subjects MCC to the U.S. source requirements similar to USAID. • MCC, to the maximum extent possible, should ensure that small and minority-owned businesses participate in the MCA.	• Assistance is suspended if a country is ineligible under FAA and resumes if the President waives the prohibition.

Description and Rationale of the MCA Qualification Indicators

To qualify for MCA funds, developing countries must demonstrate a commitment to: 1) governing justly; 2) investing in people; and 3) encouraging economic freedom. After considering a variety of indicators 16 were selected based on their relationship to growth and poverty reduction, the number of countries they cover, their transparency and availability, and their relative soundness and objectivity.

The indicators chosen are:

Encouraging Economic Freedom:	Investing in People:	Governing Justly:
Country Credit Rating	Public Primary Education Spending as Percent of GDP	Civil Liberties
1-year Consumer Price Inflation	Primary Education Completion Rate	Political Rights
3-Year Budget Deficit	Public Expenditures on Health as Percent of GDP)	Voice and Accountability
Trade Policy	Immunization Rates: DPT3 and Measles	Government Effectiveness
Regulatory Quality		Rule of Law
Days to Start a Business		Control of Corruption

The selection of MCA participant countries will be based on their relative policy performance as measured by these 16 indicators as well as on other information related to economic growth and poverty reduction. To qualify as a better performer, a country will have to be above the median[1] on half of the indicators in each of the three policy areas and corruption. However, qualifying as a better performer will not guarantee MCA support. Despite our best efforts to select the indicators, there may still be gaps or lags in the data, or trends not reflected in the data, which may be material for assessing performance. To correct for these possibilities, the MCA Board of Directors will "look behind the numbers" to make a final recommendation to the President on qualifying countries.

Encouraging Economic Freedom: The MCA will measure a country's level of economic freedom via its performance in implementing prudent macroeconomic policies and microeconomic indicators, and creating the conditions necessary to attract investors into putting money into that country.

1) *Country Credit Rating — Institutional Investor* magazine produces a semi-annual survey of bankers' and fund managers' perceptions of a country's risk of default. Our belief is that such a survey is an important indicator of the views of the private sector. In addition, an improved credit rating usually can lead to a country lowering its cost of capital and facilitating FDI and domestic investment.

2) *Inflation*: As a measure of monetary policy, the MCA will use the most recent 12 month change in consumer prices as reported in the IMF's International Financial Statistics. High inflation distorts relative prices and increases the uncertainty of ex-post real interest rates, which inhibits long-term contracts. Also, as the poor hold a higher percentage of their wealth in cash, they are disproportionately hurt by the erosion of its purchasing power. Of our 16 indicators, this is the one where performance is not judged relative to the median. Instead, for a country to pass this indicator, it must have inflation less than 20%. Some studies, such as Khan and Senhadji (2001), go further and provide evidence that inflation rates above 12% slow economic growth.

[1] With the exception of inflation for which countries need to have an annual rate under 20% to pass.

3) *Budget Deficit/GDP:* As a measure of fiscal policy, we use a country's overall budget deficit – averaged over a three-year period. The data for this measure is being provided directly by the recipient government and will be cross checked with other sources and made publicly available to try to ensure consistency across countries. A high budget deficit crowds out private sector investment, can lead to inflation, and places a burden on subsequent generations. Several researchers, such as Sachs and Warner (1997), have found empirical evidence of the negative impact of deficits on growth.

4) *Days to start a business:* The Private Sector Advisory Service of the World Bank Group works with local lawyers and other professionals to examine specific regulations that impact business investment. One of their studies measures how many days it takes to open a new business. Bureaucratic barriers to business formation that go beyond protecting society not only hinder entrepreneurship but mainly exist to preserve the economic rents of political cronies

5) *Trade Policy: The Heritage Foundation's Index of Economic Freedom* measures a country's openness to international trade based on average tariff rates and non-tariff barriers to trade. Sachs and Warner (1997) find that between 1970 and 1989 open economies (those with low to moderate trade barriers and exchange controls) grew about 2 percent faster on average than more closed economies. Srinivasan and Bhagwati (1999) examine the link between trade and development by reviewing a number of case studies on the issue and conclude that "the virtues of openness established in these nuanced in-depth studies remain unrefuted."

6) *Regulatory Quality Rating:* The World Bank Institute has designed a series of indices that aggregates existing quantitative assessments of governance from a broad range of sources (see section below on Governing Justly). One of these indices is the Regulatory Quality Rating, which measures the burden of regulations on business (licensing requirements, labor regulations, bureaucratic corruption). Excessive regulations and their arbitrary application deter investment and raise the cost of doing business, thereby hindering job creation and reducing growth.

Investing in People: In terms of measuring a country's commitment to helping educate its citizenry and providing basic health care, we were particularly concerned that a country's income level not preclude it from qualifying, yet we also wanted to provide an incentive for countries to focus on key policies that contribute to growth. Our proposal, therefore, includes two budgetary input measures, which governments can control, as well as two output measures that reflect improvement in the policy environment, and are key to sustainable development.

1) *Public expenditure on health as a percent of GDP:* This data is being provided directly by the recipient government.

2) *Immunization rate for DPT and measles:* The World Health Organization (WHO) compiles data on immunizations for a number of diseases for most UN members. Immunization rates can be associated with growth because labor productivity increases when workers are not out sick or caring for ill family members. A WHO study, "Macroeconomics and Health", discusses links between improved health and higher economic growth. Bhargava, et al. (2001) model the effects of health on economic growth and find that greater adult survival rates have a positive effect on economic growth in poor countries.

3) *Total public expenditure on primary education as a percent of GDP:* This data is being provided directly by the recipient government.

4) *Primary Completion Rate:* The World Bank and UNESCO compile data that attempts to measure whether children are receiving minimum education levels. A higher level of education tends to increase labor productivity. Krueger and Lindahl (2000) found that each additional year of education increased average GDP per capita by 6-8%.

Governing Justly: There is a growing literature on the importance of strong political institutions and good economic governance in the success of development. Kaufmann, Kraay, and Zoido-Lobaton (1999), in "Governance Matters," provide empirical evidence of a causal relationship from better governance (including voice and vote, government effectiveness, rule of law, and control of corruption) to better development outcomes such as higher per capita incomes. Furthermore, in "Growth without Governance," Kaufmann and Kraay (2002) show that "improvements in institutional quality or governance are unlikely to occur merely as a consequence of economic development." Their research rejects the argument that good governance is a luxury that only rich countries can afford. Clague et al. (1997) find that the quality of institutions and the protection of property rights are important factors in determining per capita GDP growth and investment as a percent of GDP.

1) *Civil Liberties:* Freedom House evaluates freedom of expression, association and organizational rights, rule of law and human rights, and personal autonomy and economic rights.

2) *Political Rights:* Freedom House also evaluates the prevalence of free and fair elections of officials with real power; the ability of citizens to form political parties that may compete fairly in elections; freedom from domination by the military, foreign powers, totalitarian parties, religious hierarchies and economic oligarchies; and the political rights of minority groups.

3) *Voice and Accountability*: Similar to the Regulatory Quality indicator above, the World Bank Institute has created an index of surveys which attempts to measure a country's institutions to protect civil liberties, the extent to which citizens of a country are able to participate in the selection of governments, and the independence of the media.

For these three indicators, many of these policies should be seen as ends in their own right apart from their impact on growth. Additionally, freedom of expression and of the media allows civil society to effectively monitor the government and prevent corruption or more subtle rent seeking behavior. Free and fair elections make governments accountable to the entire country rather than to a more narrow power base, thus making them more responsive to development needs.

The remaining three indicators were indices of surveys produced by the World Bank Institute that are designed to measure:

4) *Government Effectiveness*: Good governance requires that the quality of public service provision is not poor, that civil servants are competent and independent from political pressures, and that governments establish credibility in making good on their commitment to produce and implement sound policies and deliver public goods.

5) *Rule of Law*: This index attempts to measure the extent to which agents have confidence in and abide by rules of society, incidence of violent and non-violent crime, effectiveness and predictability of the judiciary, and the enforceability of contracts.

6) *Control of Corruption*: The World Bank Institute has also measured this vital concept by analyzing the frequency of "additional payments to get things done," the effects of corruption on business environment, and "grand corruption" in political arena or in tendency of elite forms to engage in "state capture. With respect to this indicator, President Bush made it clear that the MCA should be used only to "reward" countries that are the most transparent and least corrupt countries. His instincts are backed by much of the literature, including new research by Gelos and Wei (2002) that finds investors tendency to avoid less transparent countries. To meet the President's concerns, we have determined that those countries which fall below the median on this indicator will be considered ineligible for MCA funds, absent material change in their circumstances.

MCA Data on the Web

Indicator (source)	*Definition*
Country credit rating (Institutional Investor)	www.institutionalinvestoronline.com/ (requires password; current data comes from magazine)
Inflation rates (IFS, WEO and national sources)	http://www.imf.org/external/pubs/cat/longres.cfm?sk=397.0 http://www.imf.org/external/pubs/ft/weo
Days to Start a Business (World Bank Institute)	http://rru.worldbank.org/DoingBusiness/SnapshotReports/EntryRegulations.aspx
Trade openness (IEF trade policy)	www.heritage.org/index/
Regulation rating (KK)	http://www.worldbank.org/wbi/governance/
Budget Deficit (IMF/ National sources)	To be solicited from national sources

Indicator (source)	*Definition*
Immunization rate (WHO)	(site) http://www.who.int/vaccines-surveillance/StatsAndGraphs.htm
Public Expenditure on Health (national sources)	To be solicited from national sources
Primary Completion Rate (%) (WDI, AEA)	http://www.worldbank.org/data/wdi2001/index.htm http://www1.worldbank.org/education/pdf/EFA%20Complete%20Draft.pdf http://devdata.worldbank.org/edstats/cd.asp (current data is mixture of data from WDI (requires subscription) and AEA (obtained from web))
Public expenditure on primary education (national sources)	To be solicited from national sources

Indicator (source)	*Definition*
Civil Liberties (Freedom House)	www.freedomhouse.org/ratings/index.htm
Political Rights (Freedom House)	www.freedomhouse.org/ratings/index.htm
Voice and Vote (Kaufmann-Kraay)	http://www.worldbank.org/wbi/governance/
Government Effectiveness (Kaufmann-Kraay)	http://www.worldbank.org/wbi/governance/
Rule of Law (Kaufmann-Kraay)	http://www.worldbank.org/wbi/governance/
Control of Corruption (Kaufmann-Kraay)	http://www.worldbank.org/wbi/governance/

Africa Day
October 7, 2003
Washington, DC

Session 4

Title: How does AFR achieve its vision?

Time: 3:30-6:00

Moderator: Connie Newman

Objective: To discuss how AFR achieves its vision given programmatic, financial and human resource challenges faced by the Agency.

Topics to be discussed/questions to be answered:

Session 4(a) – 3:30-4:45 Strategic Planning

--What is the impact of earmarks, initiatives and other directives on AFR's strategic planning process?

--What is the impact of strategic budgeting (performance informed budgeting) on strategic planning?

--What effect have Agency initiatives had on bureau programming priorities?

Session 4(b) – 4:45-6:00 Resource Planning

--How have funding constraints affected our ability to achieve mission strategic plans and AFR's vision?

--Are there alternate ways to utilize our resources more effectively to address Africa's development problems?

- How can we best deal with staffing constraints (use of FSNs and PSCs; delegating responsibility; pair and share staff among missions; lessons from E&E)
- How do we cooperate with other USG agencies to address the HIV/AIDS pandemic in Africa?
- How do we best manage programs in post-conflict countries given limited program and human resources?
- How do we make best use of a changing food aid response, i.e., declining monetization and increasing direct distribution?

--Should AFR be following the example of other bilateral donors and use budget support as a mechanism to achieve AFR's vision?

Associated Documents:

--Bureau Vision Statement

Rapporteur: Herschelle Challenor

DRAFT

U.S Foreign Aid: Meeting the Challenges of the Twenty-first Century (Draft, September, 2003)

A. Introduction

This paper is about reforming U.S. bilateral foreign aid, particularly the substantial portion administered by USAID. It builds on the promising reforms embodied in the President's proposal for a Millennium Challenge Account. It is motivated by two factors.

First, development progress has been recognized for the first time as a vital cornerstone of national security. The September 2002 National Security Strategy -- issued one year after the terrorist attacks on the U.S. -- emphasizes **development** as one of the three strategic areas of emphasis (along with defense and diplomacy) based on the following considerations:

- The main security threat to the U.S. stems from the confluence of terrorism and proliferation of weapons of mass destruction.
- Weak states – in the developing world and among formerly Communist countries – pose the greatest threats and obstacles.
- Contrary to perceptions after the Cold War, the U.S. (and other donor countries) cannot afford to ignore such states.
- The development challenge is that of "widening the circle of development". That includes strengthening currently fragile states to lay the foundations for development progress; and achieving or maintaining development progress in other countries so that they do not become weak states.
- Supporting the latter point, research indicates that the countries most prone to conflict, crisis, and state failure are countries that are poor and/or not making development progress.[1]

Apart from security interests, successful development makes important contributions to other U.S. national interests, particularly economic interests. Successful developing countries – both advanced countries and poor countries making steady progress – have provided the most dynamic markets for U.S. exports.. And, rapidly expanding exports have played a significant and increasing role in overall U.S. growth.[2] Development progress also enhances the capacity (and often the willingness) of countries to cooperate on issues of transnational concern. Finally, effective development cooperation –

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[1] See Breaking the Conflict Trap: Civil War and Development Policy by Paul Collier et al, World Bank Policy Research Report, 2003.

[2] For supporting data and analysis see "Trade Capacity Building and the U.S. Stake in Trade with Developing Countries", PPC, 2002. These positive impacts occur not just over the medium term, but even in the near term.

including achievement of the Millennium Development Goals -- is arguably an important cornerstone for international cooperation more generally.

In line with the National Security Strategy, the State/USAID Strategic Plan includes development as one of the three strategic objectives, along with several others that correspond pretty well to defense and diplomacy. Again, this amounts to a major upgrade in the acknowledged importance of development among broad U.S. foreign policy priorities.

Second, however, there is a widespread perception that U.S. bilateral foreign aid is poorly positioned to respond to the challenges of development in the 21st century. A recent issue of the The Economist reviewed the Bush Administration's foreign aid initiatives in largely positive terms but nonetheless stated "Even by the low standards of aid bureaucracies, America's main one, USAID, is inefficient and ineffective."[3] Similarly, a recent study from the Center for Global Development (CGD) notes, "US bilateral assistance has been heavily criticized for its lack of focus and for achieving weak results in recipient countries."[4]

These critiques bear attention because they come from institutions that appreciate the importance of development progress, support foreign aid, and have no obvious axes to grind. The CGD study offers a helpful analysis of the sources of weakness in U.S. bilateral foreign aid -- one that essentially points to problems of policy coherence:

> "Critics see USAID as highly bureaucratic, undermined by competing special interests and extensive earmarking.....there is little question that USAID's performance could be improved dramatically. Much aid is wasted on countries with governments that are not serious about development, on projects that are poorly designed, and on heavy bureaucracy that prevents a large proportion of aid money from getting close to its intended recipients. While part of the problem lies with the internal structure and culture of the organization itself, much lies with the elaborate web of legislation and directives from Congress in which the Agency labors. To get a sense of the complexity, consider the US Foreign Assistance Act of 1961, which, as amended, specifies a remarkable 33 goals, 75 priority areas, and 247 directives. These multiple goals are more than just an administrative burden; they make it very difficult for USAID to achieve clear results."[5]

The problem of policy incoherence has been echoed in many other analyses of U.S. foreign aid. For instance, the report of the Ferris Commission -- transmitted to the President in April 1992 -- stated:

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[3] See "American Foreign Aid: Bush – Hero or Hypocrite?" The Economist, May 31, 2003, pp. 67-68. The article provides no discussion or evidence supporting the judgment about USAID.
[4] See Challenging Foreign Aid, Steven Radelet, Center for Global Development, May 2003.
[5] Challenging Foreign Aid, p. 2.

> "AID is burdened with objectives and earmarks imposed by both the Executive Branch and Congress – 39 objectives at last count. Many of AID's management problems flow from policy confusion.....AID's basic management problems can never be resolved without a reappraisal of the objectives of foreign economic assistance."[6]

Development progress and effective foreign aid are more important than ever. This paper argues that to establish policy coherence and increase effectiveness USAID needs to identify, clarify and distinguish among its core goals; more clearly align resources with these goals; and manage strategically to achieve results in terms of each goal.

The remainder of the paper briefly considers lessons learned about how to achieve development progress and make foreign aid more effective. It then considers the evolving context for development and foreign aid, and how it affects the challenge of development. On the basis of this discussion the paper identifies five core goals for foreign aid. It then posits a mission statement that embodies these goals, and sets forth basic principles and approaches for managing resources strategically to meet each goal. Following the conclusion, Annex A identifies and discusses a number of issues.

B. The Challenge of Development

The challenge of development is not new, although the context has changed in some important ways. There is a rich track record over the past four decades, with plenty of examples of success and failure. Several important recent stock-taking exercises include Foreign Aid in the National Interest and the 2002 Monterrey Conference on Financing for Development.[7] We draw on these and other sources, with a particular focus on what we've learned about development and about aid effectiveness.

1. What's been Accomplished/What have we Learned?

- **We've seen more success than failure.** Contrary to perceptions of near universal failure, the development record is quite mixed and arguably positive. More specifically, a substantial number of countries in the developing world – accounting for the vast majority of people – have made significant progress in terms of economic growth, social indicators, and economic and political freedom. (See Annex B) On the basis of a large body of experience the development community has learned important lessons about what determines success or failure, and how foreign aid can be more effective.

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[6] See the "Report of the President's Commission on the Management of A.I.D. Programs", April 1992, pp. 4-5. These judgments about multiple competing goals and objectives leading to policy incoherence that hampers aid effectives are echoed in other commissioned reports including the Wharton Report, "Preventive Diplomacy: Revitalizing USAID" September 1993; and the Hamilton Report, February 1989.
[7] See Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity, USAID, 2002; and the "Outcome Document" adopted at the International Conference on Financing for Development, March 2002.

- **Institutions – not resources – matter most.** The strength and performance of institutions, particularly as evidenced in the quality of governance and rule of law, are the primary determinants of development outcomes.

- More specifically, as the President pointed out in connection with Monterrey, developing countries **achieve progress by ruling justly, promoting economic freedom, and making sound investments in people.**

- **The role of foreign aid is essentially supportive.** Foreign aid contributes by reinforcing recipient efforts to improve governance, promote economic freedom, and make sound public investments. Foreign aid and other resources cannot by themselves make development happen -- they cannot substitute for recipient self-help efforts. When self-help efforts are adequate (or better), foreign aid can make an important positive contribution.

- **Foreign aid and trade and investment are complements, not substitutes.** Foreign aid supports country efforts to improve the business climate by improving policies, strengthening institutions and governance, and undertaking sound public investments. These improvements enable countries to participate in and benefit from globalization, including rapidly expanding trade and investment. With development progress, the role of aid diminishes over time, and the role of trade and investment increase.

- **There are clear avenues for improving aid effectiveness.** Aid effectiveness can be improved by:

    - more clearly defining the goals of aid, and aligning resources more clearly with those goals;
    - allocating aid *across countries* more selectively, taking need, commitment, and performance more systematically into account;
    - allocating aid *within countries* more in accord with recipient developmental needs, opportunities, and priorities, and less in accord with donor political interests;
    - attaching more importance to strengthening institutional capacity, and avoiding programs and practices that undermine institutional capacity.
    - placing more emphasis on partnership, participation, and ownership in the programming of aid;
    - paying more attention to absorptive capacity constraints;
    - improving donor coordination and harmonization so as not to overwhelm recipients with a proliferation of donor goals, objectives, practices, and approaches; and by
    - placing more emphasis on timely graduation, to demonstrate success and so that more aid will be available for poor countries.[8]

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[8] The opportunities for graduation are particularly enhanced by globalization, and by assistance instruments such as the Global Development Alliance, that can help mobilize non-official resources and wean middle-income countries from dependence on ODA.

2. The Evolving Context for Development Cooperation. Some of the key factors and forces influencing development cooperation include the following:

- **Globalization.** Both "goods" (trade, investment, technology, knowledge, information, skills) and "bads" (disease, weapons, terrorism, narcotics, other criminal activity) cross borders more readily. There is greatly increased interdependence among countries. The rewards to good policies and institutions, and the negative consequences of weak policies and institutions are greater than ever.

- There is **expanded understanding and agreement** on the importance of development, the keys to development progress, the role of foreign aid, and how to improve aid effectiveness.

- **AIDS** and other infectious diseases threaten development progress in a number of low-income countries. At the same time, some countries have taken effective measures to stem the expansion of AIDS. The non-health impacts need to be more fully understood and appreciated.

- **Fundamentalism** threatens progress in a significant number of Muslim-majority countries, and also threatens to undermine the role and relationship of these countries to the international community, to their detriment.

- **Weak and failing states** have represented a growing problem since the end of the Cold War -- one that cannot be ignored in a world concerned with terrorism and proliferation of weapons of mass destruction. At the same time, while knowledge and understanding are increasing, proven strategies for strengthening weak states remain elusive.

- Closely associated, there are **increasing demands for humanitarian aid** reflecting an increased incidence of complex disasters, along with natural disasters in stable states.

- There is a general perception of **aid ineffectiveness and failure** despite significant progress in a large number of countries that account for the bulk of the population in the developing world.

3. What does this add up to in terms of challenges?

The developing world can be roughly divided into two groups of countries and associated challenges:[9]

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[9] For purposes of this paper the "developing world" includes countries in Eastern Europe and the NIS that are engaged in the transition from Communism.

- **Relatively stable developing countries** -- where commitment ranges from weak to very good, and foreign aid can to varying degrees support progress in terms of "transformational development" -- development that brings far-reaching, fundamental changes in institutional capacity, human capacity, and economic structure, so that a country can sustain further economic and social progress without depending on foreign aid. For these countries the challenge is to achieve and/or maintain development progress, leading to graduation from developmental foreign aid. The stronger the commitment, the greater will be progress and potential aid effectiveness. In countries with only weak commitment, there are sharp limits to what foreign aid can accomplish in terms of transformational development.

- **Fragile states** – those on a downward spiral toward crisis and chaos, some that are recovering from conflict and crisis, as well as essentially failed states. The challenge is to move countries out of the group of fragile states and into the stable developing group, where more conventional development cooperation and progress are possible. There is considerable room for debate about which countries should be considered fragile states, and (more importantly) whether and how foreign aid can make a contribution. At one extreme, in countries committed to recovering from crisis and conflict (more or less current possible examples include Bosnia, Macedonia, Serbia, Afghanistan, hopefully Iraq) there is a clear, vital role for foreign aid. The role of aid has been less clear in countries such as Zimbabwe, Nigeria and DRC, where commitment to progress is less evident. In countries like Myanmar, there is at best a very limited role for foreign aid. There are many possibilities and examples between these extremes.

The borderline between these two groups of countries is by definition blurred, since the group of fragile states includes some countries that are becoming increasingly unstable and others that are recovering from crisis and becoming more stable. The results of one effort to sort developing countries in terms of commitment and stability are contained in Annex C. Using a per capita income criterion of $1450 for 2002, some thirty low-income countries can be classified as good or very good performers using a variety of rating systems. Of these, four or five (Uganda, Indonesia, Bosnia, Pakistan, Nepal) might be considered fragile. Another thirty-five low-income countries can be classified as fair ("mid-range") or weak performers. Of this group, over half might be characterized as fragile states. There are also around 35 countries with per capita incomes over $1450. Significantly, none of these is considered a fragile state according to recent USAID budget guidance and other estimates.

Further, three major challenges/concerns are manifest in various countries from **each** group:

- **Global/Transnational issues** and other special foreign policy concerns -- primarily AIDS but also other infectious diseases, biodiversity, climate change, narcotics, and other issues that need to be addressed in various countries that

might belong to either group. These concerns affect to varying degrees *development* prospects and prospects for progress in *fragile states*, i.e. the two core sets of concerns identified above. But they are typically addressed as self-standing concerns.

- **Humanitarian aid** – relief from both man-made and natural disasters. Again, this is a concern for various countries (but not all countries) in each group. Humanitarian aid has been required at various times for relatively stable countries in Central America, Africa, and Asia; and also more typically for weak/failing states. Apart from disasters, there is also ongoing humanitarian aid in countries such as India and Bangladesh, which are stable and making progress. Again, these humanitarian concerns are arguably separate and distinct from the challenges of development and fragile states.

- **Specific strategic foreign policy country priorities** (e.g. Engaging Islam, Middle-East Peace, and The Stability Pact) that call for funding such as ESF.[10] These are *not* necessarily separate and distinct concerns. Instead, for *some* of these countries the two core concerns -- *development progress* (e.g. at times in Egypt, Jordan, Pakistan, Indonesia, Philippines, Costa Rica) and *strengthening fragile states* (in Afghanistan, Haiti, Kosovo, Iraq) have been ***especially*** important from a foreign policy standpoint. In others (Israel, Turkey) neither development nor fragility are central concerns.

These five challenges suggest five core goals for foreign aid:

- *Promote transformational development* – sustained economic, social, and political progress in reasonably stable developing countries, particularly those with adequate (or better) commitment to good governance and economic growth and significant need for concessional assistance.
- *Strengthen fragile states* – stabilization and consolidation in selected failing, failed, and recovering states when and where U.S. assistance can make a significant positive difference in strengthening institutions and managing conflict.
- *Provide humanitarian relief* – to meet immediate human needs in countries afflicted by violent conflict, crisis, natural disasters, or persistent dire poverty.
- *Support strategic states* – to achieve specific U.S. foreign policy goals in countries of high priority from a strategic standpoint (e.g. Pakistan, Afghanistan, Jordan, Egypt, and Iraq).
- *Address global and transnational issues and other special concerns* (including those that merit restrictive earmarks and directives) – for example, HIV/AIDS, other infectious diseases, child survival, biodiversity, climate change, direct support for international trade agreements, and counter-narcotics.

[10] Economic Support Funds, formerly known (quite aptly) as Security Supporting Assistance.

C. USAID's Mission

At the most general level, USAID's mission is to contribute to U.S. National Security and national interests by promoting development as identified and discussed in the National Security Strategy. This suggests three major elements that support U.S. foreign policy and national security, and which together encompass the five core goals identified above:

- Promote transformational **development** in reasonably stable, needy and committed developing countries, reinforcing and supporting their efforts to rule justly, promote economic freedom, and invest in their people.

- Promote **stability and recovery** in selected fragile states to provide the basis for future development and mitigate security threats stemming from conflict and state failure; and provide **humanitarian assistance** in response to associated man-made disasters as well as natural disasters. [11]

- Address **specific foreign policy concerns and threats**. This includes *global and transnational issues* in areas such as health, environment, narcotics, trade negotiations, and other *special concerns*. It also includes specific *strategic foreign policy priorities* at the country level (e.g. Mid-East Peace, Islamic Engagement, and stability in the Balkans). In all of these cases we would work especially closely with other parts of the State Department.

D. Guiding Principles, Approaches, and Programmatic Implications

General – USAID will follow the approaches identified earlier for improving aid effectiveness, including:[12]

- A clearer delineation of goals and a clearer alignment of resources with goals.
- Increased selectivity (with criteria appropriate to each goal) in allocating resources across countries;
- Within countries, a greater focus on tailoring country programs to country needs and opportunities;
- A stronger emphasis on institutions, institutional capacity, and absorptive capacity both in allocating aid and programming aid;
- Increased attention to ownership, partnership, and participation in country assistance strategies;
- Improved donor coordination and harmonization; and
- A greater emphasis on graduation (with criteria appropriate to each goal.)

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[11] Note that for the goals pertaining to transformational development and strengthening fragile states the country is the basic unit of analysis. Success or failure is primarily a function of public institutional performance and actions undertaken by the state, e.g. promoting economic freedom, improving governance, and providing basic public goods and services. Success or failure in one country is largely (not completely) independent of success or failure in another. This is in contrast to goals pertaining to global and transnational issues, where there is greater interdependence.

[12] See page 4.

Private resources are playing a large and increasing role in addressing development issues. USAID will continue to emphasize the Global Development Alliance as a vehicle for leveraging private resources through partnerships in support of our core goals.

An important task for USAID is to develop a better approach to strategic budgeting and management. At present, this effort is hampered by two factors. First, development resources are intended for a variety of purposes, many of which are somewhat distinct from development, including strengthening fragile states, global and transnational issues, and other special concerns. An approach that is "strategic" for any one of these concerns is typically not suitable for the others. Second, earmarks, directives, and initiatives in many cases preempt strategic budgeting.

The following discussion provides more detail on how resources can be allocated and managed more strategically for each of the five core goals identified above. At the same time, it certainly does not address all of the important issues. USAID will need to develop more detailed guidance for each core goal, and will need to undertake policy analysis to address issues that cannot be quickly or easily resolved. In particular, USAID will need to develop a strategy for fragile states that the interagency can embrace.

1. Promoting Transformational Development

This includes countries that are reasonably stable (not fragile states), and that are needy rather than advanced in developmental terms. The goal in these countries is to achieve transformational development leading to advanced status and graduation, and not merely incremental improvements in well-being. Achieving this goal depends first and foremost on country commitment and self-help efforts. Some of the key guiding principles and approaches include the following:

- The MCA will support development progress in a limited (e.g. 12-18) number of relatively needy countries with very good policy performance relative to others.

- This leaves a large number of *low-income* countries (See Annex C) with policy performance good enough to foster meaningful development progress and effective aid. To enhance aid effectiveness and to the extent permitted by legislation USAID will allocate *development* resources (other than MCA funds) *among* non-MCA countries taking into account need, commitment, and performance.[13]

- More specifically, for development purposes USAID will focus mainly on countries that are very close to MCA eligibility ("good performers"); and on countries that are less close ("mid-range performers), but where policy performance and commitment to reform provide the opportunity to make progress

[13] Performance includes both country performance and program performance.

in terms of improved governance, economic growth, and transformational development.

- To enhance aid effectiveness and to the extent permitted by legislation USAID will allocate *development* resources *within* countries to activities expected to have the greatest development impact in each country, taking into account recipient commitment, priorities, and self-help efforts and activities of other partners. USAID will place priority on supporting recipient efforts to rule justly, promote economic freedom, and invest in people. Within this broad framework the composition of USAID programs may vary significantly across countries depending on country circumstances, needs, and opportunities.

- "Good performers" include countries that might qualify for the MCA with improvements in one or two specific areas and with no declines in others. In these countries USAID will support continued progress, including (but not limited to) efforts to strengthen performance in specific areas (under the general rubrics of ruling justly, promoting economic freedom, and investing in people) to enable qualification for MCA funding.

- Among "mid-range performers" – countries that are less close to MCA eligibility but where policy performance is still conducive to development progress and aid effectiveness – USAID will focus mainly on those countries where there are solid reasons to believe that policy performance will improve significantly. USAID efforts in such countries will include a strong emphasis on capacity building.

- Developing methodologies to assess which mid-range performers are seriously committed to improved policies is a major challenge and will require a focus on qualitative as well as quantitative measures. Qualitative assessments must be rigorous and accurate, assessing both leadership commitment to reform and the social and political feasibility of reform.

- In stable countries with only weak commitment to development, USAID development assistance will be sharply limited, both in volume (very low development aid levels relative to other countries) and content (e.g. limited technical assistance, direct service delivery, focus on non-governmental institutions, and targeted efforts to build demand for reform).

- In middle-income countries -- which typically have the institutional capacity (if not the policies) for sustained progress -- USAID will make a more concerted effort to phase out development resources and promote *graduation*, while encouraging a greater role for private flows and non-governmental actors, including through the Global Development Alliance.[14]

[14] The illustrative per capita income threshold for middle-income countries in this paper is $1450 in 2002.

- All of the countries discussed above (including middle-income countries) may separately receive aid for humanitarian purposes, global/transnational issues, and other specific concerns to the extent such aid can be effectively used.

- In stable countries receiving large amounts of ESF, SEED, and/or FSA and *where development progress is a major part of our specific foreign policy concerns*, USAID will work especially closely with other parts of State to maximize the synergy between development and more specific foreign policy concerns.[15] Ultimately, what can be achieved in developmental terms will depend mainly on recipient commitment and self-help efforts. Programs in such countries will be informed but not restricted by more general USAID policies and strategies for development.

2. Strengthening Fragile States

Fragile states include failing, failed, and recovering states.

- **Failing states** are characterized by a growing inability to provide even basic services and security to their populations. Current examples include Georgia and Zimbabwe.

- **Failed states** are those in which the central government does not exert effective control over, and is unable to deliver vital services to significant parts of its own territory. Examples include Somalia, Liberia, and Democratic Republic of Congo.

- **Recovering states** are those that are still weak, but on an upward trajectory in terms of stability and basic governance. Examples include Afghanistan, Burundi, Bosnia, and Indonesia.

For both failing states (on a downward trajectory) and recovering states (on an upward trajectory) there will be some for which classification (i.e. "development" or "fragile") will be a matter of debate, since the boundaries between the two groups are inevitably blurry. We are developing guidance to help draw these distinctions, including more specifically defining "fragile", and identifying the indicators that distinguish fragile states from others.

The *goal* in fragile states is to establish a platform of stability and basic governance that provides a foundation for transformational development. As with development efforts, the effectiveness of assistance to strengthen fragile states depends critically on recipient

[15] There is considerable debate about the scope for development effectiveness where ESF is concerned, since commitment to development progress is not a criterion for ESF allocations among countries. Nonetheless, in a significant number of ESF countries development progress has arguably been a critical part of our foreign policy interests, e.g. (at various times) Pakistan, Philippines, Indonesia, Egypt, Jordan, Macedonia, Costa Rica, and other parts of Central America.

commitment and self-help efforts. Some key guiding principles and approaches include the following:

- Insofar as this is a separate and distinct goal, it is important to identify separate and distinct *resources* – other than development resources – for addressing challenges in fragile states.

- In fragile states deemed important enough to receive substantial ESF, SEED, or FSA, USAID will work closely with other parts of State to promote stability, recovery, and governance while addressing other specific foreign policy concerns.

- For other fragile states, USAID will work closely with the Administration and Congress to identify resources (other than development resources) to be dedicated to promoting stability, recovery, and basic (minimal) governance. Identifying a separate account will help address more transparently the difficult issue of the balance between development efforts and efforts to strengthen fragile states, and avoid problems of trying to address both challenges from the same account.

- USAID recognizes – along with the rest of the donor community – that our experience and track record in such countries is relatively limited, as is our knowledge about what works and how to achieve meaningful results (compared with conventional development). More specifically, there are some positive examples and experiences for states with committed governments recovering from conflict and crisis. But, there are very few positive examples for failing states as well as failed states with predatory governments. In the latter cases, both resources and expectations should be modest at best.

- Developing a credible and effective strategy for fragile states is a matter of top priority. USAID is developing a typology to better understand fragile states and is analyzing the drivers of change in both positive and negative directions. Together these analyses will help identify interventions that target the essential vulnerabilities in fragile states. As essential element will be to understand what can realistically be accomplished with foreign aid in fragile states. USAID will produce a new strategy for assisting fragile states by the end of 2003.

- Effectiveness and results – including "graduation" -- should not be measured in standard development terms but rather in terms of progress toward stability and basic governance as a foundation for efforts at transformational development.

- Selectivity will be applied <u>among</u> countries. Selection of countries will be based on the application of all of the following criteria:

    - need
    - foreign policy importance
    - feasibility of effecting positive change
    - commitment by the host government to change

The following guiding principles need to be considered as preliminary and tentative pending completion of USAID's Strategy for Fragile States:

Failing states:

- In states with some commitment, USAID will consider an approach of identifying reformers, and providing them with demand-driven technical assistance and/or analysis to strengthen their capacity to drive change from within. The stronger the commitment, the more ambitious a reform and institution-building program that might be put in place.

- Where commitment is strong and credible, assistance should focus on shoring up state capacity to provide order and security, and deliver basic services. In the absence of state commitment long-term institution-building efforts in other sectors are usually inappropriate.

- The risks of democratization programs must be carefully weighed given the potential destabilizing impacts of such programs.

Failed states: In failed states with no commitment, USAID will concentrate on humanitarian assistance.

Recovering states (Including but not limited to post-conflict):

- In post-conflict and other recovering states of strategic importance, USAID will join with interagency partners and other donors to develop a common strategic approach.

- In countries recovering from conflict, empirical findings indicate that absorptive capacity is severely limited in the first years after hostilities (when donors tend to inject the most funds). USAID will be attentive to absorptive capacity constraints.

- Establishment of basic order and security is the first priority in recovering states, particularly those recovering from conflict. Absent this, democratization programs, such as elections, political party building, etc. are generally inappropriate soon after the cessation of conflict.

- In close consultation with other US inter-agency partners and key donors, USAID will need to expand its work in security sector reform in post-conflict states.

- In all recovering states re-establishment of livelihoods and delivery of basic services will be a primary focus, utilizing NGOs where appropriate.

- However, USAID should not rely exclusively on non-state actors in these countries because state weakness is a central challenge. The Low Income

Countries under Stress (LICUS) model, which encourages the identification of zero generation reforms and of reformers within the government who can be supported may be appropriate. In any case, limited support to the state to build capacity will be necessary.

3. Humanitarian Aid

- Humanitarian assistance will be provided basically on the criterion of urgent need, and without penalty for weak government commitment. Resources (particularly food aid and disaster relief) will be allocated to provide relief to needy people, including internally displaced persons.

- Humanitarian aid will be programmed so as to reinforce and not undermine the goals of stability, recovery, and improved governance in fragile states. Under circumstances of complex emergencies and man-made crises, humanitarian aid is particularly vulnerable to use by recipients as a political tool, or to other misuse by authorities. USAID will take appropriate steps to prevent such misuse.

4. Support for Strategic States

For strategic states the objectives of assistance will be determined principally by the State Department and the National Security Council. Guiding principles and approaches include the following:

- Identification of countries and funding levels will typically be set by Congress or Administration. Funding should be from ESF or ESF-like resources. Strategic budgeting in a developmental sense (based on need, commitment, etc.) is not applicable.

- USAID strategic planning, programming, and performance monitoring, to the degree that it is warranted in these countries, should likewise be guided by the principal rationale and objectives of the assistance. Where development progress or addressing fragility is a major objective, programs will be informed but not restricted by relevant USAID policies and strategies. Program support, cash transfers and general budget support might be applied.

- Success, or return on investment, should be measured against the objectives that the assistance is supposed to achieve. Where development progress or addressing fragility is a major objective, recipient commitment remains a primary determinant of aid effectiveness and results.

- Programming in strategic states simply for purposes of securing cooperation can be unstable to the extent that changes in cooperation are reflected in changes in assistance levels.

5. Global/Transnational Issues and other Special Concerns

Here the objective of assistance is to address global or transnational issues and other specific, self-standing concerns. These are frequently associated with Congressional earmarks. Global and transnational issues are those where progress depends on collective efforts and cooperation among countries.[16] Examples include HIV/AIDS and other infectious diseases, global climate change, biodiversity, watershed management, international trade agreements, and certain criminal activity such as trafficking in persons and narcotics. Other specific, self-standing concerns include programs that are: fairly specifically defined and restricted; oriented more toward near term service delivery rather than longer term institutional development; and for which the broad principles for aid effectiveness and sustainability (discussed on p. 4) are less readily applicable or are simply not applied. Possible examples include child survival and family planning.[17]

Guiding Principles, Approaches, and Programmatic Implications

- USAID will work closely with the Administration and Congress to identify resources (other than development resources) to address such issues.

- Selection of countries and funding levels will be largely related to specific need or presence of target, e.g., tropical forests or river basins in a particular country. The overall level of development and quality of development performance or commitment, particularly of the host government, will typically be of less importance in allocation decisions.

- In countries where these issues are the sole or primary rationale for foreign assistance, "full" bilateral USAID Missions are generally not warranted. It often makes more sense for programs addressing such issues to be implemented from Washington or from regional bases.

- Decisions about the role of USAID vis-à-vis other agencies will be based on comparative advantage. Other USG agencies, the UN and other multilaterals, NGO's, and/or hybrids such as the Global Fund to Fight AIDS, TB and Malaria may be better suited in some cases. Where USAID is significantly involved, greater use of personnel details (both to and from USAID) should be made.

- USAID's experience and relationships with local and international NGOs is a particular asset for this set of concerns. So are partnerships under the Global Development Alliance.

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[16] More specifically, global and transnational issues are those where one country's efforts, successes, and failures have significant impacts on success and failure in other countries. Infectious diseases provide clear examples. In some cases (biodiversity, climate change, and to some extent trade negotiations) a country may not have adequate incentives to take action unless other countries also take action.

[17] For more detail on this issue see the discussion in Annex A, Issue 7.

- The nature of these issues demands greater interagency and other donor cooperation, coordination and collaboration.

- Strategic planning and performance monitoring approaches will be tailored to each concern to reflect outcome indicators and accomplishments at the country, regional, and/or global levels as appropriate.

E. Conclusion

Most critiques of U.S. bilateral foreign aid emphasize the problem of policy incoherence – multiple and competing goals and objectives that pull in different directions – leading to aid ineffectiveness. This paper aims to address and resolve this problem. Considering the emphasis on development in the National Security Strategy and the USAID/State Strategic Plan; the proposed Millennium Challenge Account; the lessons of development experience over the past several decades; and the evolving context for development cooperation, the paper posits five core goals. It proposes that resources for each goal be identified and managed strategically, as opposed to the current situation of trying to achieve multiple goals with the same resources, particularly development assistance. Some of the issues and implications that flow from these proposals are explored further in the following Annex.

Annex A – Issues and Implications

1. The problem cited in the White Paper is that USAID has too many goals and objectives that compete with one another and pull us in different directions, leading to policy incoherence and ineffective aid. Yet the WP does not eliminate any goals and objectives -- it merely realigns them. In what sense does this approach constitute reform and how (if at all) does it address problems of aid ineffectiveness and policy incoherence?

    - Leaving aside ESF and humanitarian aid, USAID currently tries to address most of these goals and objectives with one instrument – development assistance. This leads to complex and confusing budget and strategy guidance that tries to take into account a myriad of specific concerns, many associated with earmarks and directives, and yet urges operating units to achieve the greatest possible development results while addressing fragility, conflict, global issues, and other concerns. Operating units are often in the position of trying to achieve multiple goals and objectives with the same dollar. (Authors of policy and strategy papers are sometimes in an analogous position, writing about agriculture or education or trade from a development perspective while bringing in other goals and concerns such as support for U.S. trade negotiations).
    - The WP seeks to distinguish among core goals, and among the resources for each goal. For instance, resources for development and resources for global environmental issues get separated from one another; and resources that can be programmed flexibly in response to country needs and opportunities are separated from resources associated with restrictive earmarks and directives.
    - This allows for strategic management -- policies, strategies, resource allocation, program guidance, and results reporting that are tailored to each core goal.
    - The first four core goals (development, humanitarian relief, fragile states, and strategic states) can each be approached in a fairly coherent fashion while tailoring programs to country circumstances.
    - The fifth core goal (global and transnational issues and special [self-standing] concerns) is the catchall category. However these typically are funded by restrictive earmarks and directives, so that operating units are not in the position of trying to achieve several goals with the same dollar of program funds.

2. Can this get accomplished without a new foreign aid bill and a new set of accounts?

    - A new foreign aid bill based on the five core goals and an associated set of accounts would be the clearest and cleanest way to implement the reforms proposed in the White Paper.
    - There may be some legislative remedies that would allow greater flexibility in accounts without a complete overhaul of the Foreign Assistance Act.
    - Barring legislative relief, the reforms could still be implemented with cooperation from State and OMB simply by taking existing accounts and funding levels and subdividing them according to the five core goals.

- In particular, the DA account would be subdivided into funds that could be used fairly flexibly for development; funds that could be used fairly flexibly for fragile states; and funds subject to narrow earmarks and directives, which would be associated with the fifth core goal.
- Some SEED and FSA funds could count as flexible development and fragile state funding (though they would not be geographically flexible).

3. Under the latter approach, what if there are only very low levels of flexible resources for development and fragile states?

We could then point to the need for more resources if we are going to be effective in achieving goals acknowledged by the National Security Strategy to be important. In the meantime, we could resist being held accountable for development results for programs and funding that are not well suited to achieve such results.

4. Do the WP reforms address the tension between centralized and decentralized programming?

    - Yes. By distinguishing among core goals and among the resources for each goal, they permit and encourage centralized approaches where they make the most sense along side decentralized approaches where they make the most sense.
    - Centralized approaches arguably make the most sense for global issues and special concerns funded by restrictive earmarks and directives.
    - Decentralized approaches arguably make the most sense for development and fragile states, where programs should be based on country needs, priorities, and circumstances.
    - Programs for strategic states would vary by country, but with considerable central direction.

5. Can we readily distinguish between the "development" countries (those which are reasonably stable and committed) and fragile states? Aren't many countries candidates for both groups?

    - This is clearly an issue "in principle", particularly since (relatively) weak institutions are the hallmark of both poor countries and fragile states. Almost all fragile states are low-income countries, but not all low-income countries are fragile states.
    - To explore the issue at the practical level, we undertook a sorting exercise, distinguishing first between low- and middle-income countries, and then using various indicators of commitment to subdivide the low-income group. We also took into account judgments from budget guidance and elsewhere on fragile states. (Including identifying recipients of transition assistance).
    - The results are described in Annex C.
        i. No middle income countries are identified as fragile states.

ii. There is a fairly high (negative) correlation between ratings of commitment and indicators of fragility. Most fragile states are low-income countries with relatively weak policy and institutional performance (e.g. Zimbabwe), and so would not be significant claimants of development funds.

iii. There are a few countries (Sri Lanka, Indonesia, Nepal, Uganda, Pakistan) that are sometimes considered fragile states and which have fairly good policy performance based on one or another rating (e.g. the IDA quintile ratings).

- The emerging fragile states strategy will presumably set forth more rigorous definitions and approaches for identifying fragile states, providing an opportunity to explore this issue more conclusively.
- Fragile states include failing, failed, and recovering states. So, some fragile states will be on a downward trajectory and others on an upward trajectory, i.e. moving from one group towards another. We will need to develop guidance to accommodate transitions from one group to the other.
- For countries that are both good development partners and fragile states, there are probably ways to pursue both goals simultaneously, just as some countries would receive funding both for development and for global issues. For instance, managing conflict is a potential program area even in stable developing countries.

6. What about graduation?

- USAID has long found it difficult to formulate a policy toward graduation, because of various important and valid reasons for maintaining an aid program in middle-income and advanced developing countries.
- One advantage of distinguishing among core goals is that it permits explicit and clear graduation from, say, development or fragile states funding while leaving open the possibility for funding for other important concerns such as biodiversity or support for trade negotiations.
- In other words, "graduation" (and presence more generally) needs to be looked at with respect to each core goal, rather than as an overall concept.
- A more concerted approach to graduation from "development" funding for middle-income countries (which have good access to private resources and international technology and expertise) would help free up development resources and field staff for other programs.
- Graduation from "fragile state" funding would presumably mean making a transition to a development program, assuming a reasonable level of commitment.

7. How can we distinguish between earmarks and directives (such as child survival, family planning, micro enterprise, and HIV/AIDS) for special concerns (Goal 5) and resources for development (Goal 1)?

- It is important to take a practical rather than "ideological" approach to this issue. Broad earmarks and directives that permit funding of a wide range of activities within a major "sector" such as agriculture, trade, or basic education do relatively little damage to flexibility.
- The practical questions to be asked in each case include:

  i. Is the funding subject to fairly restrictive guidance?
  ii. Can it be allocated across countries according to broad development criteria of general need and commitment?
  iii. Within countries how flexibly can it be programmed – to a relatively wide or a fairly narrow range of activities within a sector?
  iv. How strictly is the funding tied to delivery of specified goods or services? Or, to service delivery to narrowly defined groups?
  v. Can the funding readily and effectively be used to support significant policy reform and institutional strengthening at the sectoral level?
  vi. If the funding achieves its specified goals, but the country makes little or no progress toward transformational development are we satisfied or not? (For instance, reducing the incidence of HIV/AIDS is cause for celebration whether or not the recipient country makes broader progress.)

- On the basis of the answers to these sorts of questions USAID could determine which resources go with which goal; and would also be in a good position to argue for broadening certain earmarks to improve development impact and results.

8. Does the White Paper call for USAID to specialize and operate in fewer program areas?

- This needs to be considered "goal by goal"
- For development resources the WP argues that USAID should follow best practice in tailoring programs to country circumstances and priorities, within the broad framework of ruling justly (governance), investing in people, and promoting economic freedom and economic growth.
- Accordingly, a USAID mission concerned with development programming would jointly identify with the recipient country a limited number of areas where USAID can make the greatest contribution.
- This approach would have USAID involved in carrying out a few development activities in each country, but a range of activities across countries.
- Other goals (fragile states, strategic states, and particularly global, transnational, and other special concerns) would have USAID undertaking an even wider range of activities across countries.

9. Does the WP call for USAID to operate in fewer countries?

- As with many other issues, this needs to be considered "goal by goal". The main positive impacts on effectiveness will come from having clearer goals in each country.
- Guiding principles for *development* call for most but not necessarily all development resources to be focused on good and mid-range performers; and for any development programs in weak performers to be (at most) relatively small and sharply limited in scope and content.
- The fewer resources available for development (i.e. the fewer flexible resources), the more important to concentrate those on good performers, and not allocate them to weak performers.
- Expressed differently, the number of countries with development programs will be partly or even mainly a function of availability of development resources. With enough development resources, there are strong arguments for maintaining a modest, limited presence in weak performers.
- In any case, there might still be funding for global issues and special concerns in a wide range of developing countries, including weak performers.
- It is not yet clear what levels of resources might be available for *fragile states*, and how they would be allocated among countries. There is a presumption of selectivity so that some fragile states would not have programs.

10. What are the implications for staffing?

- Some of the core goals (development, fragile states, and certain strategic states programs) clearly call for qualified staff in the field, since these programs need to be tailored to country circumstances and call for attention to institutions, governance, economic growth, and sectoral issues.
- In particular relatively good performers might need more staff than others -- contrary to what is contemplated in the staffing template – depending on our goals and program levels in such countries.
- Others goals (global, transnational, and special concerns; humanitarian aid) might demand considerably less or even very little in the way of field staff, with more reliance on Washington staff and mechanisms and/or assistance channeled through intermediary organizations.
- For development and fragile states, there is considerable uncertainty about available funding. If funding levels are low, then staff demands might well be concentrated in relatively few countries.
- To the extent that USAID emphasizes graduation from development programs for middle-income countries, this might free up both flexible resources and staff.

11. How can we gauge commitment and policy performance, particularly where economic growth and governance are concerned?

- For countries in the *development group*, there are a number of useful approaches, including the "hurdles approach" used for the MCA (along with the underlying data sources; the World Bank's Country Policy and Institutional Assessment quintile rankings for IDA recipients; and various assessments of economic freedom, competitiveness, and the business climate. (In the latter cases it is important and challenging to isolate policy effort, and avoid rewarding level of development).
- For *fragile states*, and for stable developing countries with well-intentioned leadership but low ratings on actual policy performance, more ad hoc approaches to gauging commitment will need to be developed and tested.
- For global issues and special concerns, commitment and policy performance would be judged more narrowly, in ways appropriate to the specific concern.

12. What about the MCA?

- The WP acknowledges the MCA as a major source of funding for a limited number of top performers. The WP goes on to argue that there is a substantial number of other countries where development progress is both important and feasible. Therefore, USAID should continue to play an important role in "straight development" (as well as other challenges identified in the WP).
- More specifically, the MCA will likely provide resources to around 12 to 18 top performers, mostly (at least in the first phase) low-income countries.
- Looking at various measures of policy performance and commitment, this leaves around 12-18 low income countries that could be considered *good* performers; and another 12-18 low-income countries that could be termed "*mid-range*" or fair performers.
- This is broadly consistent with a recent World Bank paper on the millennium development goals that argues that there are some 60 low income countries with performance that is good enough so that aid can be effective and achieve results.
- An issue for "good performers" that are considered "near misses" for the MCA is whether development resources should be directly focused on influencing critical indicators to promote accession to MCA, or whether resources should be focused more broadly on the three areas (ruling justly, economic freedom, investing in people) identified by the President and others as the fundamental determinants of development progress. This issue is under active review.

13. Do we know how to achieve results in fragile states?

- There are a large number of issues surrounding fragile states, including issues of definitions, indicators, how to gauge commitment, whether and how foreign aid can make a difference, and how to define and measure results.
- We are working of a fragile states strategy that will set forth our understanding of the challenge and how foreign aid can make a clear positive contribution.

14. To what extent is there overlap between the group of strategic states (ESF countries), and the development and fragile state groups of countries, and how is this to be handled?

- Some argue that there is no overlap at all, in the sense that we are in ESF countries for special reasons that have little or nothing to do with development, therefore we should simply program and report according to the rationale for providing ESF.
- In particular, we typically provide ESF to countries with no reference to development criteria of need or commitment, therefore program results should not be judged on criteria of development effectiveness.
- Others argue that in some ESF countries our programmatic goal is development progress, even if that is not the rationale for the assistance. This may become more frequent as development progress becomes more and more important to achieving our strategic goals. Possible current examples include Egypt and Jordan; historical examples arguably include Philippines, Pakistan, and Costa Rica.
- The overlap between strategic states and fragile states is more obvious (Iraq, Afghanistan; historical examples include Bosnia).
- The WP posits three sub-groups among strategic states: those where development progress is the main program goal (whatever the rationale for the assistance in the first place); those where overcoming fragility is the main program goal; and those where neither is an important program goal.
- Which strategic states belong in which groups would be primarily a matter for the State Department to decide, in close consultation with USAID on issues of feasibility and expected results.
- In the first group we would follow best development practice to the extent permitted by our specific foreign policy goals and constraints in each country, and report accordingly (taking into account the impact of foreign policy constraints on aid effectiveness and results).
- Similarly, in the second group we would follow "best fragile states practice" to the extent permitted by our specific foreign policy goals.
- In the third group (e.g. Turkey, Israel) programs would depend on guidance from State.

Annex B – Development Performance and Prospects

A. Development Performance by Region[18]

- **Africa** – We've seen significant advances in social indicators (fertility, infant mortality) but very little economic progress as a whole over the past three decades. However, since the late 1980's growth performance has been increasingly mixed [rather than uniformly weak] and steadily improving, as a growing number of countries have achieved respectable growth rates over a meaningful time period. (Uganda, Mozambique, Ghana, Senegal, Benin, Burkina Faso, Mauritania). There's been significant progress in economic freedom and political freedom in many countries. But, there is a dangerously high incidence of weak/failing states. And, AIDS increasingly inhibits progress in many countries.

- **Low-Income South/Southeast Asia** – There has been steady growth in most countries along with advances in social indicators and progress in political and economic freedom. (Significant positive stories include India, Bangladesh, Sri Lanka, and Vietnam). Because of large populations, progress in this set of countries has major implications for achieving the Millennium Development Goals. But, progress has been **fragile** (witness Pakistan and Indonesia in the 1990's) and continued progress is by no means assured. And, there are clear trouble spots (Afghanistan, Myanmar, Cambodia [?]...)

- **East Asia/Advanced SE Asia** – There has been enormous, widespread progress affecting large numbers of people (Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, China), with significant recovery from the Asian Financial Crisis.

- **Middle East/North Africa** – This is a very mixed picture, considering Morocco, Algeria, Tunisia, Egypt (which has done better than commonly acknowledged according to accepted indicators of development), Israel, Lebanon, Jordan, Turkey, and Yemen. Many other countries have been largely outside the sphere of development cooperation (Libya, Iraq, Syria, Iran, Gulf States, Saudi Arabia…)

- **Latin America** – Most countries are middle-income (only Haiti and Nicaragua are in the low-income group) with good/improving social indicators. There has been major progress in terms of political and economic freedom. But, the record on growth has been inconsistent and disappointing, with only a few bright spots. (Chile, Mexico) Apart from Venezuela, Cuba, Haiti and Colombia, there are few near-term threats associated with fragile states.

- **Eastern Europe** – We've seen major progress since the fall of the Iron Curtain, and significant improvements in economic and political terms. While many

[18] These brief characterizations are based on material prepared in recent years for USAID's Annual Performance Reports

countries have not regained pre-transition levels of GDP, recent growth performance (over the past five years or more) has been strong almost everywhere. There are many graduates or near graduates (Baltics/Northern Tier/Croatia/Slovenia), as well as some countries that merit continued attention (Stability Pact/Serbia).

- **NIS** – There have been major improvements in economic policy and growth performance, but the number of weak states remains large, and social indicators are declining in many instances.

B. **Development Performance by other Groupings**

- Dividing the developing world into **normal integrators** and **slow integrators** (mainly low-income countries) as in FANI and World Bank papers: each group is large; the normal integrators have made a fair amount of progress as a group; and the slow integrators have not. Countries in the slow integrator group represent the major development challenge and the major hazards where weak states are concerned.[19]

- Dividing the developing world into "development groups" we see:[20]

  - a large and growing number of **graduates** -- most are solid international citizens (The "Asian Miracles" except Indonesia, much of Latin America, Turkey and Tunisia, Mauritius, the Baltics and the Northern Tier of Eastern Europe)
  - a significant and growing number of **middle-income countries** (in Latin America, Middle East/North Africa, Asia, and Eastern Europe) for which graduation within a decade is feasible (ditto on the solid citizens);
  - a numerically small (10-15) but *very populous* group of **low-income countries that have made/are making genuine progress** (most of South and Southeast Asia, Uganda, Ghana, Mozambique, Senegal....); and
  - a numerically large but far less populous group of **low-income countries where progress has been at best intermittent** (Mainly in Africa; a few in Asia and Latin America).
  - A subset of this latter group are weak/failing/dysfunctional countries.

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[19] See Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity; and "Globalization, Growth, and Poverty", a World Bank Policy Research Report.

[20] These groupings based on "The Development Record and the Effectiveness of Foreign Aid", Praxis (The Fletcher Journal of Development Studies), Volume XI, 1999.

Annex C – Developing Countries and Fragile States

Introduction: An important test for the reforms proposed in the White Paper is whether the country groups and subgroups identified in the paper make sense in practice – can we distinguish among countries, and are there a significant number of countries in each group and sub-group? This annex discusses the results of a preliminary, illustrative exercise to group countries according to commitment, and to identify fragile states.

Methodology: The exercise takes advantage of various approaches to estimating commitment, including several versions of the "hurdles" method; the publicly reported results of the World Bank's Country Policy and Institutional Assessments for IDA-eligible recipients; and an exercise carried out by the IRIS Center at the University of Maryland based on governance indicators. It also reports results of several classification exercises that shed light on fragile states.

Where commitment is concerned, countries are divided into four groups, corresponding to categories used the USAID recent budget guidance – "top, high, mid-range, and weak" performers.[21] Eventually, "top" performers will be authoritatively identified by the MCA. In the meantime, the ratings from various sources add up to a fairly consistent picture, with not too many countries where the ratings diverge in a significant way. Again, all of this is preliminary and mainly for purposes of "testing" the groupings discussed in the White Paper.

The spreadsheet that supplements this paper presents data for some 66 low-income countries (per capita incomes below $1450 in 2002) and 37 middle-income countries. Both groups include formerly Communist countries.

For low-income countries, the commitment ratings include the quintile ratings for IDA recipients issued in 2002 and 2003 (with 5 as the top quintile and 1 as the lowest); "hurdles" runs carried out in 2002 and 2003 that indicate the number of hurdles passed for categories of ruling justly and economic freedom[22] ; estimates of commitment by IRIS based on governance indicators; and the results of a very recent paper using all three sets of hurdles. [23] On the basis of these sources a draft "overall" rating is assigned.

For middle-income countries there is very little information on commitment, since they are not IDA-eligible, and since the MCA (which motivates most hurdles runs) will not initially focus on middle-income countries. The results of a 2003 hurdles run for ruling justly and economic freedom are presented. In any case, the White Paper argues for a more concerted effort at graduation from *development* aid for middle-income countries.

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[21] More accurate descriptors might be "very good, good, fair, and weak".

[22] The hurdles results for investing in people are not used here because they are weaker in terms of isolating policy effort and commitment.

[23] "Which Countries are Most Likely to Qualify for the MCA? An Update", Steve Radelet, Center for Global Development, May 30, 2003.

There is also information from various sources indicating which countries might be considered fragile states. These sources include USAID's recent budget guidance (which identifies both "fragile/failing" states and weak states where we provide aid essentially for "foreign policy" purposes; USAID designations of countries in post-conflict transition; and an exercise by IRIS to identify fragile and failing states. There is also information on whether countries are receiving international disaster assistance (IDA) and/or assistance through the Office of Transition Initiatives. There is clearly much more work to be done here in terms of definitions and indicators.

Results: The data and results are presented in the spreadsheet that supplements this paper. For commitment, the grouping exercise identifies eleven "top" performers among the low-income countries: Philippines, Senegal, Sri Lanka, Tanzania, Honduras, Ghana, Bolivia, India, Benin, Bangladesh, and Uganda.[24]

A second group includes fourteen "high" performers – Mongolia, Malawi, Madagascar, Nepal, Mali, Indonesia, Moldova, Burkina Faso, Armenia, Albania, Nicaragua, Mozambique, Zambia, and Vietnam. Five additional countries that might be considered (depending particularly on the weight given to one or another source) include Ukraine, Cape Verde, Mauritania, Bosnia, and Pakistan.

A third group comprises sixteen "mid-range performers" – Lesotho, Guyana, Georgia, Gambia, Cambodia, Morocco, Paraguay, Yemen, Ivory Coast, Niger, Azerbaijan, Guinea, Ethiopia, Kyrgyz Republic, Kenya, and Rwanda. Two additional countries might also be considered – Serbia and Eritrea. It is apparent that these countries span a considerable spectrum, and that the timeliness of commitment indicators is an issue. There are also more examples of divergent ratings in this group. The White Paper envisions a need to discriminate closely among such countries and consider not just the level but also the direction of policy performance.

The seventeen "weak performers" are weak by almost any standards – Cameroon, Nigeria, Sierra Leone, Belarus, Laos, Uzbekistan, Sudan, Tajikistan, Turkmenistan, Burundi, DR Congo, Haiti, Zimbabwe, Angola, Liberia, Somalia, and Afghanistan (where data are essentially lacking).

The results for "fragile states" are less clear-cut. Broadly speaking, fragile and failing states are concentrated in the group of "weak performers" and in the lower ranges of "mid-range" performers. That being said, there is surprisingly little agreement between the USAID budget guidance and the IRIS ratings. Among "top performers" Uganda is considered "fragile" by IRIS, and Sri Lanka receives OTI assistance. Among "high performers" Indonesia, Bosnia, and Pakistan are considered "fragile" by IRIS. Pakistan is rated "fragile/failing" in the USAID budget guidance and Indonesia is rated "post-conflict transition" while receiving USAID assistance from both IDA and OTI.

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[24] There is no presumption that this will be the set of initial MCA recipients, particularly since non-hurdle approaches are considered. Some of these countries will probably not be selected, and some countries rated below these probably will be. The purpose here is to illustrate what the initial set of MCA recipients might look like, and how other low-income countries might be grouped in terms of commitment.

DRAFT

U.S. Foreign Assistance: Effectiveness in the National Interest

Challenge and Opportunity

The nature and importance of U.S. interests in developing countries have changed dramatically, but the structure of U.S. foreign assistance has not. September 11, 2001, demonstrated that emerging threats and challenges originate in the developing world, where weak government institutions and economies make states vulnerable, and limited rights, freedoms, and opportunities perpetuate poverty. This has generated not only serious security threats but also humanitarian crises. Further, U.S. economic interests in the developing world have increased dramatically, as have concerns with global and transnational issues where developing countries play a major role. American policymakers require an improved set of instruments and options for dealing with these diverse challenges and interests. We require a new national foreign assistance strategy.

USAID officials contributed to formulating the National Security Strategy, the Millennium Challenge Account, the international Monterrey Consensus, and our report, Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity. These recent exercises affirm the importance of development and foreign aid and indicate a number of approaches and reforms to improve the effectiveness of foreign aid.

Principles and Policies For Improving the Effectiveness of U.S. Foreign Assistance

First: Clarify and distinguish among core goals. U.S. foreign aid is encumbered by a plethora of competing goals, objectives, mandates, and directives that often work at cross-purposes and defy efforts to manage strategically and achieve clear results. We propose the following distinct core goals:

- *Promote transformational development* -- in reasonably stable developing countries that are committed to good governance and economic growth and have significant need for concessional assistance;
- *Provide humanitarian relief* -- to meet immediate human needs in countries afflicted by violent conflict, crisis, natural disasters or famine, or persistent dire poverty;
- *Strengthen fragile states* -- including selected failing, failed, and recovering states when and where US assistance can make a significant positive difference in strengthening institutions, managing conflict, and carrying out reconstruction;
- *Support strategic states* -- to achieve specific U.S. foreign policy goals in countries of high priority from a strategic standpoint;
- *Address global and transnational issues and other special concerns* (including those that merit restrictive earmarks and directives) – for example HIV/AIDS, other infectious diseases, biodiversity, climate change, support for international trade agreements, counter-narcotics and child survival.

Second: Align resources with core goals. Aid effectiveness is currently hampered by the need to address some or all of these goals with one instrument – "Development Assistance". If we are to manage strategically to achieve our core goals, we need to identify separate resources (or accounts) for each core goal and manage them accordingly.

- For **development** MCA funds will make a major contribution in a relatively limited number of countries that are "top performers". This leaves a significant number of countries (thirty or more) that are very good or reasonably good partners, and where development progress is both feasible and desirable from the standpoint of U.S. national interests. The U.S. will be unable to materially impact economic development in non-MCA countries that are good development partners without a significant amount of development assistance that is unencumbered by earmarks and directives and can be directed at governance and economic growth.

- For **fragile states** a new, separate account (of uncertain size, but with flexibility) needs to be established.

- **Humanitarian aid** and **ESF** (for strategic states) provide appropriate resources for two other core goals.

- Resources for **global and transnational issues and other special concerns** need to be identified and managed separately from development assistance.

Private resources (besides the official foreign aid mentioned above) are playing a large and increasing role in addressing development issues. USAID will continue to emphasize the Global Development Alliance as a vehicle for leveraging private resources through partnerships in support of our core goals.

Third: Manage resources strategically to achieve clear, significant results in terms of each goal.

- For **development** this means allocating resources *among* countries based on need and commitment to good governance, as evidenced by actual policies and institutional performance. Within countries, development resources will support self-help efforts to rule justly, promote economic freedom, and invest in people, thereby strengthening governance and promoting economic growth. Resources will be allocated based on agreed country needs and priorities, with an emphasis on recipient ownership (a function of political will and national consensus); and with accountability for results in terms of broadly defined functional areas (e.g. democratic governance, agriculture, business climate reforms and trade capacity, education, health, and environment). Where commitment is weak, we will sharply limit or halt development assistance. In middle-income countries we will emphasize graduation from development assistance (but not necessarily from assistance for other concerns.)

- For **humanitarian aid** this means allocating resources (particularly disaster relief and food aid) to provide relief to needy people, including internally displaced persons, regardless of

country need or political considerations. Accountability for results will be in terms of saving lives and alleviating hunger and other forms of suffering.

- Resources for **fragile states** will promote stabilization and consolidation in countries where a link to U.S. national security is present, and where U.S. assistance can make a difference. This is a new, difficult, and increasingly important area for foreign assistance, where all donors still have a great deal to learn about how to achieve results. We are developing a strategy for fragile states that focuses on the causes of institutional weakness and violent conflict, whether in circumstances of complex disaster, post-conflict reconstruction or stagnant growth. Resources will be allocated selectively, taking into account need, commitment (particularly quality of leadership), and the feasibility of achieving results. Accountability for results will be in terms of increased stability, recovery, and "graduation" to development status.

- For **strategic states** we will manage resources in especially close consultation and coordination with State and other USG agencies, to accurately identify and agree on the goals and desired results in each country. In some countries, the desired goal may be development or reduced fragility. Programs in such countries will be informed but not restricted by more general policies for development and for fragile states. In every case, accountability will be in terms of agreed goals and desired results.

- For **global, transnational, and other special concerns** we will manage resources in especially close coordination with State, other USG agencies, and Congress. For each issue or concern, USAID (in close consultation with relevant partners) will develop guidance for allocating the associated resources across and within countries so as to achieve and account for the desired results.

Fourth: Improve government-wide policy coherence and foreign assistance collaboration. USAID and State should work together to harmonize foreign assistance policies and improve collaboration across agencies. USAID and State should provide the foundation for improved Government-wide collaboration. We should:

- build on our joint Strategic Plan and new joint Policy and Management Councils;
- collaborate in (a) assessing recipient country political will to use assistance effectively and (b) coordinating high-level U.S. diplomatic support for development-enabling host country policy and institutional reform;
- jointly identify countries for fragile state attention and coordinate appropriate assistance and diplomatic strategies; and
- jointly report to Congress and OMB on resources for strategic states, global and transnational issues, and other specific foreign policy concerns.

Conclusion: Development progress, developing countries, and foreign aid are more important than ever to U.S. national security. To improve policy coherence, increase aid effectiveness, and address management issues we need to more clearly articulate a strategic vision for bilateral foreign aid. This paper is intended to stimulate discussion and progress towards that goal.

THE CHANGING PARADIGM OF DEVELOPMENT ASSISTANCE TO AFRICA

DRAFT

INTRODUCTION

This paper outlines how the aid environment in Africa is changing and recommends how USAID's Africa Bureau should react. Several international initiatives aim to build a new development paradigm and partnership with Africa. In this new environment Africans, rather than aid providers, are responsible for the success of Africa's development. Therefore, USAID must examine if its approach to development continues to be relevant under these new conditions, and if not, how it must change.

Under the rubric of this new paradigm and partnership, the Utstein[1] group endorses program assistance as the best means to build African ownership and development. While figures from the Strategic Partnership with Africa (SPA) reveal that the majority of all aid funds are still channeled toward projects, they do indicate that aid providers are increasing funds toward sector and general program assistance. In contrast, USAID's program assistance[2] to Africa is projected to decline from a high in the early 1990s of about 25 percent of total U.S. assistance to Africa, or almost $200 million annually, to approximately 2 percent in FY2003.

While, USAID's relatively large field presence gives it an advantage in coordinating aid efforts in the field and in grounding global rhetoric with reality, its declining use of program assistance raises questions among other donors about USAID's leadership on the international development agenda and dialogue. For example, the Utstien Group and their field representatives have recently sponsored meetings of "like-minded donors", which did not include USAID representation. If USAID wishes to remain a primary participant in the global discussion about the changing international aid relationship with Africa[3], USAID will have to demonstrate that the broad continuum between stand-alone project aid and program assistance allows endless opportunities for aid providers to add value by adapting their modality mix[4] to respond to the development environment in which they are working. USAID must prove that project assistance can also be an effective means of promoting economic and social

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[1] The Utstein group consists of Ministers of Development from Germany, The Netherlands, Norway and the United Kingdom.

[2] 1996 USAID guidance defines program assistance as DA funding with development purpose and rationale, which is achieved through accomplishment of policy, institutional or administrative reforms which are disbursement benchmarks. This is distinct from Economic Support Funds (ESF) disbursed as balance-of-payments or budget support.

[3] Predicated on the fact that in 2001, the U.S. was the largest bilateral aid provider globally.

[4] Modality mix refers to a balance between the use of project and program assistance, ensuring that these two approaches are harmonized, not homogenized.

development and democratic reforms if done under a coherent assistance framework, such as that outlined in poverty reduction strategies, and in coordination with program assistance.

In sum, USAID risks its reputation as a dynamic or leading actor in the development community because it is seen as holding views that are passe and contrary to the international community's increasing focus on host country ownership, and program assistance as the principal means of achieving such ownership. Given this new environment, it is increasingly incumbent on USAID to demonstrate that project modalities may be complimentary to program assistance and is supportive of the essence of African ownership inherent in the PRSs, NEPAD and other initiatives. This may be achieved by ensuring that USAID's project and program activities are properly adapted, aligned with national plans, such as Poverty Reduction Strategies, and promote African capacity.

IS THE INTERNATIONAL AID ENVIRONMENT IN AFRICA CHANGING?

Several initiatives, begun in the last five to ten years, have laid the foundation for the transformation of the aid relationship with Africa. One is a growing move in the aid provider community to improve aid coordination, via sector programs and donor harmonization efforts. Other initiatives contributing to the transformation of aid to Africa include the introduction of the Heavily Indebted Poor Country Initiative (HIPC) and the accompanying Poverty Reduction Strategy Papers (PRSPs) in the late 1990s, and most recently, the African-initiated New Partnership for Africa's Development (NEPAD). All of these innovations have in common three goals: 1) to build African ownership and capacity; 2) to harmonize aid provision procedures, so as to reduce the burden on African governments from uncoordinated development programs, and (3) to ensure maximum efficiency of aid.

THE INTERNATIONAL PUSH FOR PROGRAM ASSISTANCE

While all aid providers agree in principle with the ultimate goals to build African ownership and capacity and reduce burdensome and inefficient provider requirements, there are questions concerning whether program assistance, as some argue, is the best means to these ends.

Program assistance advocates assert that the project modality perpetuates the so-called vicious circle of dependency that has kept Africa from moving forward.

> Projectised donor funds attract skills and attention away from the mainstream processes of development management, and undermine

> incentives for officials to spend time on reform and overall strategic thinking at the centre.[5]

Many aid providers advocate that a measure of risk-taking is needed to allow Africans to build for themselves the development systems and capacities to allow them to break out of the vicious cycle of poverty. Program assistance advocates argue that the project modality does not just avoid the financial management constraints of African governments, but it furthers them. For example, a recent report by the Overseas Development Institute on the institutionalization of the PRSP process states:

> The loss of public planning and implementation capacity that we have identified as the core of institutional aid dependency is said to arrive particularly from the dominance in the aid relationship of the project modality.[6]

USAID's ROLE IN THE CHANGING DEVELOPMENT ENVIRONMENT IN AFRICA

To date, USAID has not taken a prominent role in the international debate on changing the nature of development aid to Africa. Many at USAID and in Congress[7] have been skeptical that the rhetoric regarding program assistance, poverty reduction strategies and other initiatives would change the development paradigm. Moreover, many have questioned the potential effectiveness of program assistance as *the* way to build African ownership. While development professionals tend to appreciate the concept that learning by doing is important and that government systems must be supported for development to be sustainable, the question remains how to balance building capacity with investing in activities that result in more immediate benefits.

While whole-heartedly embracing the principles of country ownership, development partnership, and donor coordination and harmonization, USAID has historically supported a more flexible approach to program assistance than some donor partners. A wide variety of program assistance mechanisms exist and the mix of funding mechanisms for any given activity does and should vary considerably. This reflects the reality that donors have different technical strengths, legal and political constraints, and available assets, whether in cash, kind, or technical knowledge, to offer. USAID should continue to focus on the value-added of ensuring harmonization (not homogenization) of project and program activities, but must be more open to using incarnations of both, where appropriate.

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[5] Overseas Development Institute, "PRSP Institutionalization Study: Final Report, Chapter 1: Overview of PRSP Processes and Monitoring," Submitted to the Strategic Partnership with Africa, October 15, 2001. p. 12.

[6] IBID

[7] See paper "The History of the Politics of Program Assistance," for more on the congressional and other political concerns regarding program assistance.

If it is striving to recover its position as a prominent development agency, USAID must focus on four activities. First, to preserve its credibility in the international aid arena, USAID must examine its own activities to ensure that they align with high-quality PRSs and the "New African Partnership." This will ensure that USAID has a voice in the international debate and will be able to articulate a more balanced approach in its relationship with Africa. In this manner, USAID can ensure that the issue of program assistance doesn't dominate the discussion and preclude other viable alternatives from being discussed.

Once USAID has reasserted itself, it could easily assume the role of the voice of reason and reality in international fora by supporting the concepts of African ownership and aid coordination, but pointing out that there are a variety of mechanisms that aid providers can employ, including a blend of project support as well as program assistance, to achieve these ends. Specifically, USAID should continue to 1) emphasize how its activities support the changing aid relationship; 2) highlight the human and institutional capacity demands of program assistance and the risks of employing it without proper technical assistance, and 3) try to redirect global energies toward less drastic efforts than homogenizing aid through program assistance, such as improving financial management, increasing aid transparency regarding their expenditures and increasing aid coordination in general.

Secondly, as the major initiatives in poverty reduction and reforming donor modalities evolve, it will be increasingly incumbent on USAID to demonstrate that project modalities add value to program assistance and can support the new partnership relationships inherent in the PRSP, NEPAD and promoted by the SPA. The U.S. risks becoming a secondary actor in the international aid community as long as it is seen as holding views that are perceived as contrary to the international development community's increasing call for program assistance.

Thirdly, in response to this new development environment, it is important that USAID establish a cogent position on this issue. The Agency should reexamine its use of program support and actively encourage its use where appropriate.

Finally, the fundamental challenge for USAID does not end with the program assistance issue. If USAID endorses the principles espoused by the changing development environment, it will need to assess if both its project and program support are sufficiently focused on policy reforms, institution building, and development of sustainable systems that the emerging aid partnership with Africa demands.

In terms of the United States Government (USG), it would behoove USAID to increase interagency coordination to ensure that all USG agencies understand the issues (beyond Department of State and Treasury) and are taking the same position at international meetings. To achieve this end, USAID should: (1) share Agency NPA guidance with other USG parties who attend international conferences where the U.S. policy on program assistance is discussed; and (2) the Africa Bureau should coordinate communication with PPC with respect to the Development Assistance Committee (DAC).

ANNEX 1: PROGRAM ASSISTANCE USE TO SPA COUNTRIES BY DONOR

	Original SPA-5 pledge (2000-2002) (in 000's)	Amount disbursed as of January 2002 (in millions and % of original SPA pledge)		*Total Commitments for SPA Countries (2000)	**Rough Est.% of total donor budget (2000-2001) disburs'd as budget support
BELGIUM	$38	$13	34%	$143.70	5%
CANADA	$34	$5	15%	$196.52	1%
DENMARK	$56	$67	119%	$413.92	8%
EC	$1,024	$426	42%	$1,608.82	13%
FINLAND	$2	$3	174%	$21.18	7%
FRANCE	$391	$50	13%	$856.07	3%
GERMANY	$16	$1.2	8%	$431.23	0%
IRELAND	$73	$40	55%	$77.03	26%
ITALY	$90	$32	36%	$271.92	6%
JAPAN	$87	$127	146%	$576.31	11%
NETHERLANDS	$233	$188	81%	$472.20	20%
NORWAY	$40	$64	160%	$162.92	20%
SWEDEN	$300	$103	34%	$202.09	25%
SWITZERLAND	$102	$39	38%	$207.66	9%
UK	$706	$781	111%	$1,712.20	23%
USA	$100	$87	87%	$876.89	5%

FY 05 BUREAU PROGRAM BUDGET SUBMISSION
BUREAU FOR AFRICA

BUDGET JUSTIFICATION

IV. Description of the Bureau Program Resource Allocation Process

Performance Based Budgeting: Africa Bureau's FY 2005 Model

Introduction

The Africa Bureau has undertaken a region-specific adaptation of a PPC-designed, performance-based, budgeting model. More specifically, the purpose of the model is to clearly link performance, as measured both at the country and program level, with the budget allocation process. Following is a description of the Africa Bureau's modification of the PPC model.

A Brief Description of the PPC Model

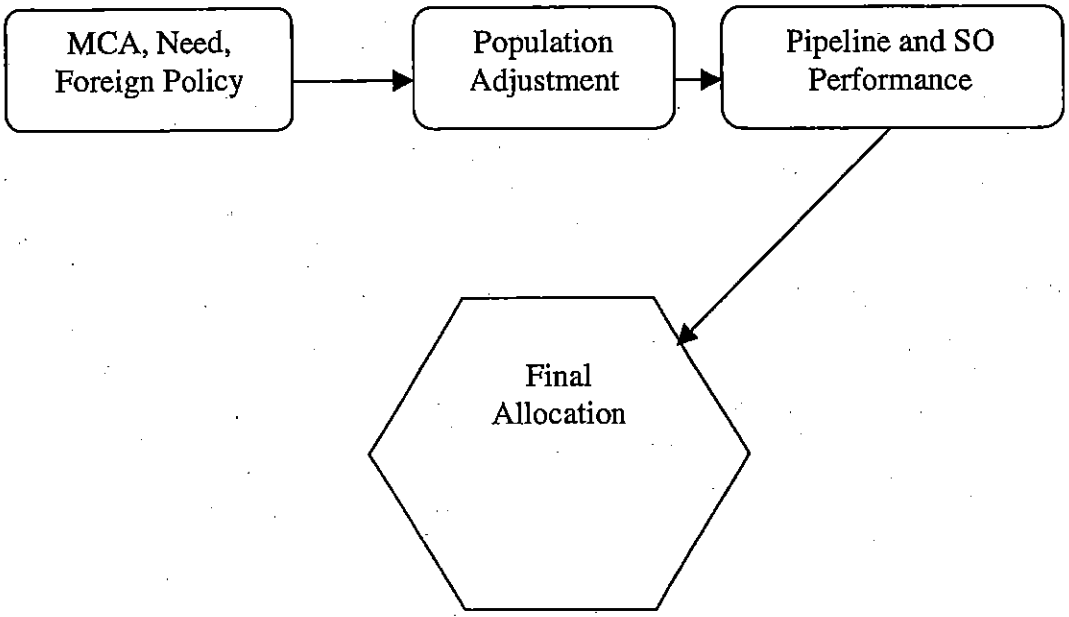
The Performance Based Budgeting Model developed by PPC allocates budget resources by assigning different weights to five different categories across all countries in a region:

1. Need (35%)
2. Alternative MCA ranking (35%)
3. Population (10%)
4. Program (i.e., USAID Strategic Objective) performance (10%)
5. Foreign Policy ranking (10%).

Adaptation of the PPC Model to the Africa Region: A General Overview

The Africa Bureau took the PPC model, and with modifications, made it the first part of a two-phase model that would enable the bureau to provide performance-driven funding allocations at the Strategic Objective (SO) level. The general structure of phase one of the Africa Bureau model is nearly identical to that of the PPC model. Like the PPC model, the Africa Bureau model allocates budget resources by country and assigns different weights to variables in the same categories. The main difference in the Africa Bureau model is in the application of the population and program performance variables, which are each applied at a later stage of the analysis. This necessitated a change in the weighting of the variables. Consequently, in the Africa Bureau version of the PPC model, Foreign Policy ranking was raised to 20% and Need and the Alternative MCA ranking were each raised to 40%.

How the Model Works



Phase I of the Africa Model

The model essentially works as follows: Each variable is calculated to suggest a particular slice of the funding pie for each country according to that variable's weighting in the model and that country's relative performance in that category. Once all of the weights are selected (totaling to 100% across all variables) each country is then assigned a total suggested funding allocation by summing up over the different variable "slices."

In the first stage of the analysis, this method was applied using Need, Foreign Policy Importance, and the alternative MCA ranking variable, just as in the PPC model but applying slightly different weights. Suggested allocations from stage one were adjusted by population. A small allocation correction was applied to the population-adjusted allocations in order to ensure that the sum of the population-adjusted allocations was equal to the total funding pie. However, each county's percentage of the total pie was preserved in this correction. (The Africa Bureau elected to apply a different population factor at this later stage because the PPC model's treatment of population resulted in country level allocations that greatly minimized the importance of population variances.) A final "country level" overall performance result was then calculated. This was done by comparing the Africa Bureau's FY 2004 bilateral Congressional Budget Justification (CBJ) request (DA & non-HIV/AIDS CSH) levels to the bilateral population-adjusted allocations derived in the model and calculating the percentage difference between the two numbers. These country performance scores were then ranked and points allocated accordingly. More specifically, model allocations that were more than 50 percent higher

than the CBJ request level received 90 points; model allocations that were more than 33 percent below the CBJ request level received 40 points; model allocations that were in between these extremes (i.e., less than 50 percent above but greater than 33 percent below the CBJ request levels) received 60 points plus their percentage multiplied by 60. For example, a model allocation that was 40 percent above the CBJ request would generate a country performance score of 60 + (.4 x 60) = 84. The high and low cut off scores of 90 points and 40 points respectively were established to ensure that countries that scored either exceedingly high or exceptionally low did not receive either a disproportionate advantage or penalty.

Phase II of the Africa Model:

Because budgeting must be done on an SO and sector basis, the Africa Bureau then proceeded with a second phase of the budget model in order to further adjust each country performance score by SO pipeline and SO performance.

Each SO was assigned a pipeline score as follows: SOs with estimated months of pipeline of 12 months or less received a score of 25. New SOs received a score of 20. SOs with estimated months of pipeline of between 13 and 18 months also received a score of 20. SOs with estimated months of pipeline of between 19 and 24 months received a score of 15. SOs with estimated months of pipeline greater than 24 months received a score of 5. Estimated months of pipeline were developed using the March 31 MACS-only pipeline data, examining both the September 30, 2002 and March 31, 2003 expenditure rates (and taking the better of the two to allow for inconsistent burn rates).

An SO performance score was also calculated. Based on Mission self-assessments submitted in the FY 2003 Annual Report, SOs were awarded scores based on the following: SOs that exceeded expectations received 15 points. SOs that met expectations and all new SOs received 10 points, and SOs that did not meet expectations received 5 points.

The Model at Work:

The Bureau developed a spreadsheet that incorporated the overall country performance score from phase I added to the pipeline and SO performance scores from phase II. An aggregate score was assigned to each SO and applied to all sectors, except HIV/AIDS. This total score became the factor against which the FY 05 request was multiplied. (Note: The FY 05 request was scaled down where necessary to ensure that no operating unit request exceeded the FY 2004 CBJ request, excluding HIV/AIDS, by more than 10%). This gave the Bureau a sector by sector level for each SO. The levels generated by this formula were then adjusted by constant percentage factors to bring each sector level into balance with a pre-determined Bureau sector control. This resulted in some cuts in some program sectors, and plus-ups in others.

It should be noted that only the bilateral programs were run in Phase I of the Africa Bureau model: Overseas regional programs were assigned a neutral "country"

performance score of 60. Levels not scored by the formula model, but held constant at a pre-determined request level include HIV/AIDS; the Washington regional program (where project transfers to the pillar bureaus were funded at FY 03 levels at this stage in the planning); and numerous unallocated directives, earmarks and contingency funds where specific program allocation decisions cannot be predicted two years in advance.

Following the production of this formulaic budget model, the Bureau then reviewed the results, and made necessary policy adjustments. These included substantial shifts downward in bilateral levels for Nigeria ($10 million), South Africa ($5 million) and Namibia ($2 million) in order to secure $20 million to bring the Sudan level to the FY 2004 request. Additional sector realignments (most of which were in the Child Survival account funded sectors) were made to ensure that model programs would continue to receive required funding.

V. Results of the Resource Allocation Process

In allocating resources among its 30 field operating units and centrally managed programs (including the new field offices for Sudan and Djibouti to open in FY 2004), the Africa Bureau has grouped countries according to the Agency typology, which is based largely on performance criteria, i.e. very high performers; good performers; mid-range performers with the will to reform; fragile or failing states and countries of special strategic national security interest. Of total program resources, 88% will be allocated to field Missions.

The Africa Bureau performance-based budgeting approach, based on the model developed by the Bureau for Policy and Program Coordination (PPC) and described above, produced results that differ from historical funding patterns. Application of this model in future years will continue the strong trend to rewarding performance.

Once the initial distribution had been produced by the model, the Bureau decided upon some further adjustments to account for anomalies resulting from the formula-driven approach. For example, the formula approach yielded a resource level for Sudan that was unacceptably low given the status of Sudan as a front line state with special foreign policy considerations. Several other country programs were adjusted either upward or downward somewhat to allow for the increase to Sudan and to both reward particularly high performers in the health sector, and to better balance the health portfolio among specific sector and directive areas. Nonetheless, by and large, most country levels remained very close to those initially generated by the formula.

COMPARISON OF CEILINGS: FY 2003 VS TEMPLATE CEILING

MISSION	FY 2003-04 CEILING			TEMPLATE	TEMPLATE CEILING (FY 2005)						ADDT'L	REV'D
	CEILING	NEPS*	TOTAL	CHANGES	TOTAL	RCO	RLA	FFP	HIV/AIDS	OTHER	CHANGES	TOTALS
Angola	3		3	2	5					5	NC	5
Benin	5		5	-2	3					3	NC	3
DROC	5		5	2	7					7	NC	7
Eritrea	3		3	-1	2					2	NC	2
Ethiopia	12	1	13	NC	12	1		1	1	10	1	13
Ghana	12		12	3	15	3	2			11	1	16
Guinea	7		7	NC	7					7	NC	7
Sierra Leone	1		1	NC	1					1	NC	1
Kenya	6		6	2	8					8	NC	8
Liberia	1		1	NC	1					1	NC	1
Madagascar	6		6	-1	5					5	NC	5
Malawi	7		7	-1	6					6	NC	6
Mali	10		10	-1	9					8	-1	8
Mozambique	12		12	-1	11				1	9	-1	10
Namibia	4		4	-2	2					2	NC	2
Nigeria	14		14	NC	14	1			1	12	NC	14
Rwanda	5		5	-1	4					4	NC	4
Senegal	14		14	-2	12	1		2		8	-1	11
South Africa	19	1	20	1	20	1	1		2	16	NC	20
Sudan (Kenya)	2		2	4	6					6	NC	6
Tanzania	9		9	-2	7				1	6	NC	7
Uganda	11		11	NC	11	1				10	NC	11
Zambia	7		7	NC	7					7	NC	7
Zimbabwe	7	1	8	-1	6				1	5	NC	6
RCSA	14	2	16	1	15	4	2			10	1	16
REDSO/ESA	19	1	20	2	21	5	3	2	1	11	1	22
Burundi	0		0		1					1	-1	0
Djibouti	0		0		1					1		1
Somalia	0		0		0					0		0
WARP	5		5		6				1	5	NC	6
TOTALS:	**220**	**6**	**226**		**225**	**17**	**8**	**5**	**9**	**187**		**225**

* NEPs with Washington-supported ceilings - not included against template ceiling. These positions will drop out in FY2005

Note: FY03-04 ceiling of 220 (from base of 207) includes 1 Moz. Flood position; 3 SAFR RUDOs; and 9 HIV/AIDS positions.

Revised 10/02/03

Africa Bureau
Office of Development Planning
FY 04 Budget Request (as of 1/13/03)
($000's)

13-Jan-03

Country/Program		FY 2004 GRAND TOTAL	FY 2004 TOTAL W/O AIDS	DEVELOPMENT ASSISTANCE ACCOUNT TOTAL DA	ECONOMIC GROWTH, AGRICULTURE AND TRADE (EGAT) TOTAL	EG	AG	HRD	BED	ENV	DCHA TOTAL	CHILD SURVIVAL HEALTH ACCOUNT TOTAL CSH	GLOBAL HEALTH POP	CSMH	HIV AIDS	VC	ID
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BURUNDI		4,300	2,550	1,800	1,700	0	1,700	0	0	0	100	2,500	0	500	1,750	0	250
DROC		24,168	19,168	6,082	5,282	400	1,300	0	1,760	1,822	800	18,086	1,300	8,486	5,000	0	3,300
ERITREA		6,240	3,740	840	840	0	740	0	0	100	0	5,400	0	2,300	2,500	0	600
ETHIOPIA		52,606	29,606	15,438	13,938	800	2,550	0	8,985	1,603	1,500	37,168	4,380	6,138	23,000	0	3,650
KENYA		42,289	13,289	3,776	2,776	0	0	0	0	2,776	1,000	38,513	6,013	1,300	29,000	0	2,200
MADAGASCAR		19,860	17,860	10,945	10,031	0	1,375	0	0	8,656	914	8,915	3,540	2,975	2,000	0	400
RWANDA		19,316	8,188	4,810	3,310	1,250	2,060	0	0	0	1,500	14,506	1,328	1,450	11,128	0	600
SOMALIA		1,376	1,376	965	965	370	0	0	595	0	0	411	0	411	0	0	0
SUDAN		66,039	61,039	49,613	46,691	15,000	24,300	1,119	6,272	0	2,922	16,426	0	11,426	5,000	0	0
TANZANIA		28,391	9,641	3,227	2,500	0	0	0	0	2,500	727	25,164	3,540	1,074	18,750	0	1,800
UGANDA		62,068	31,068	20,273	19,213	1,320	6,100	0	6,281	5,512	1,060	41,795	4,935	2,260	31,000	0	3,600
ANGOLA		13,700	6,700	2,500	2,000	0	2,000	0	0	0	500	11,200	0	3,500	7,000	0	700
MALAWI		32,474	17,974	10,555	9,800	650	3,340	0	2,608	3,202	755	21,919	2,280	2,439	14,500	0	2,700
MOZAMBIQUE		40,261	25,261	16,061	14,800	7,200	7,600	0	0	0	1,261	24,200	4,600	4,000	15,000	0	600
NAMIBIA		7,432	4,932	4,932	4,132	0	0	0	1,576	2,556	800	2,500	0	0	2,500	0	0
SOUTH AFRICA		59,085	33,085	27,457	23,457	5,600	4,435	2,000	5,220	6,202	4,000	31,628	1,328	2,300	26,000	0	2,000
ZAMBIA		49,727	20,727	9,632	8,432	750	2,625	0	4,444	613	1,200	40,095	3,540	4,400	29,000	0	3,155
ZIMBABWE		16,581	1,581	746	0	0	0	0	0	0	746	15,835	835	0	15,000	0	0
BENIN		14,421	12,416	6,892	6,030	0	0	0	6,030	0	862	7,529	2,124	1,900	2,005	0	1,500
GHANA		36,795	26,795	14,575	13,175	1,720	2,425	0	7,730	1,300	1,400	22,220	6,420	4,300	10,000	0	1,500
GUINEA		17,754	15,554	11,095	9,095	400	500	0	4,348	3,847	2,000	6,659	1,935	2,524	2,200	0	0
LIBERIA		3,145	3,145	1,100	1,100	0	1,100	0	0	0	0	2,045	545	1,500	0	0	0
MALI		29,686	26,519	17,027	15,291	1,730	3,550	0	4,511	5,500	1,736	12,659	5,000	3,192	3,167	0	1,300
NIGERIA		58,939	32,939	12,639	9,872	1,354	3,275	0	3,865	1,378	2,767	46,300	11,800	5,000	26,000	0	3,500
SENEGAL		28,034	20,534	12,209	10,066	2,600	2,775	0	2,910	1,781	2,143	15,825	2,875	2,450	7,500	0	3,000
SIERRA LEONE		4,227	4,227	3,727	1,910	720	1,190	0	0	0	1,817	500	0	500	0	0	0
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
REDSO/ESA		22,291	12,291	7,404	5,412	2,000	1,825	0	0	1,587	1,992	14,887	2,137	1,750	10,000	0	1,000
AFR/SD		37,976	34,976	18,556	17,556	1,350	3,185	0	3,865	9,156	1,000	19,420	1,945	8,975	3,000	0	5,500
AFR/DP		2,000	2,000	2,000	2,000	2,000	0	0	0	0	0	0	0	0	0	0	0
WARP		29,678	15,678	5,878	4,636	890	1,810	0	0	1,936	1,242	23,800	7,800	1,500	14,000	0	500
RCSA		12,771	12,771	12,771	11,013	4,500	3,840	0	0	2,673	1,758	0	0	0	0	0	0
So. AFR HIV/AIDS	SD	9,000	0	0	0	0	0	0	0	0	0	9,000	0	0	9,000	0	0
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Programmed Below Line		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Available for Programming		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Budget for OUS		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amount Remaining/deficit		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Country/Program		FY 2004		DEVELOPMENT ASSISTANCE ACCOUNT								CHILD SURVIVAL HEALTH ACCOUNT					
		GRAND	TOTAL	TOTAL	ECONOMIC GROWTH, AGRICULTURE AND TRADE (EGAT)						DCHA	TOTAL	GLOBAL HEALTH				
		TOTAL	W/O AIDS	DA	TOTAL	EG	AG	HRD	BED	ENV	TOTAL	CSH	POP	CSMH	HIV AIDS	VC	ID
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
																0	
Non-Presence Support	DP	1,000	1,000	1,000	1,000	1,000	0	0	0	0	0	0	0	0	0	0	0
South Africa RUDO	SA	500	500	500	500	500	0	0	0	0	0	0	0	0	0	0	0
ONCHO	SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Elephantiasis	SD	500	500	0	0	0	0	0	0	0	0	500	0	0	0	0	500
SSH	DP	2,500	2,500	2,500	2,500	2,500	0	0	0	0	0	0	0	0	0	0	0
DHRF	SD	2,500	2,500	2,500	0	0	0	0	0	0	2,500	0	0	0	0	0	0
Labor	SD	3,000	3,000	3,000	0	0	0	0	0	0	3,000	0	0	0	0	0	0
CGIAR	SD	2,000	2,000	2,000	2,000	0	1,000	0	0	1,000	0	0	0	0	0	0	0
Unallocated WVF	DP	1,190	1,190	1,190	0	0	0	0	0	0	1,190	0	0	0	0	2,250	0
Unallocated DCOF	DP	2,250	2,250	0	0	0	0	0	0	0	0	2,250	0	0	0	2,250	0
Unallocated OVC	DP	2,250	2,250	0	0	0	0	0	0	0	0	2,250	0	0	0	0	0
Unallocated VOT	DP	1,755	1,755	1,755	0	0	0	0	0	0	1,755	0	0	0	0	0	0
Les Aspin Institute	SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
G Micro Trnsfr	DP	3,000	3,000	3,000	3,000	3,000	0	0	0	0	0	0	0	0	0	0	0
Transition & Conflict	SD	5,000	5,000	5,000	1,000	1,000	0	0	0	0	4,000	0	0	0	0	0	0
PACT	SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ECA	SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IFESH	SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ATLAS	SD	1,000	1,000	1,000	1,000	0	0	1,000	0	0	0	0	0	0	0	0	0
Leland Initiative	SD	1,000	1,000	1,000	1,000	500	0	0	500	0	0	0	0	0	0	0	0
GCA Forum	DP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ALFALIT	SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IDP Core	DP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BioTech Unallocated	SD	4,500	4,500	4,500	4,500	0	4,500	0	0	0	0	0	0	0	0	0	0
Bright Ideas Fund	DP	2,000	2,000	2,000	2,000	2,000	0	0	0	0	0	0	0	0	0	0	0
PD&L	DP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Upward Adjustment Rsv.	DP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ICASS Program Rsv.	DP	1,100	1,100	1,100	1,100	1,100	0	0	0	0	0	0	0	0	0	0	0
Gorillas	SD	1,500	1,500	1,500	1,500	0	0	0	0	1,500	0	0	0	0	0	0	0
CARPE/Trop Forests	C	15,000	15,000	15,000	15,000	0	0	0	0	15,000	0	0	0	0	0	0	0
Dairy Directive	SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(1) SAEDF	ISA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
South Africa Coop Forum	SA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Anti-Corruption Initiative	SD	6,000	6,000	6,000	0	0	0	0	0	0	6,000	0	0	0	0	0	0
Publice Private Alliances	SD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Conflict	SD	8,375	8,375	8,375	0	0	0	0	0	0	8,375	0	0	0	0	0	0
Trade Initiative	SD	25,000	25,000	25,000	25,000	25,000	0	0	0	0	0	0	0	0	0	0	0
Education Initative	SD	50,000	50,000	50,000	50,000	0	0	0	50,000	0	0	0	0	0	0	0	0
Ag Initative	SD	43,000	43,000	43,000	43,000	0	43,000	0	0	0	0	0	0	0	0	0	0
Trafficking In Persons	DP	2,500	2,500	2,500	0	0	0	0	0	0	2,500	0	0	0	0	0	0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

M/B Benchmark

(1) SAEDF notified under ISA

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Africa Bureau
Office of Development Planning
FY 2005 BPBS Request - June 5 Version Revised for $20 Million Increase in DG and $75 Million Sudan Plus-Up - Final BPBS Submission
($000's)

Country/Program	FY 2005		DEVELOPMENT ASSISTANCE (DA) ACCOUNT											CHILD SURVIVAL AND HEALTH (CSH) ACCOUNT					
	GRAND	TOTAL	DA	ECONOMIC GROWTH, AGRICULTURE AND TRADE (EGAT)									DCHA	GLOBAL HEALTH					
	TOTAL	W/O AIDS	TOTAL	TOTAL	EG	TRADE Init	AG	AG Init	ENV	HRD	BED	ED Init	TOTAL	TOTAL	FP/RH	CSMH	HIV AIDS	VC	ID
BILATERAL	888,403	626,603	403,464	343,998	59,336	0	80,666	34,750	45,897	14,400	85,349	23,700	59,466	484,949	73,156	104,528	261,800	3,750	41,716
BURUNDI	3,960	3,960	1,849	1,056	0	0	1,056	0	0	0	0	0	793	2,111	0	1,331	0	622	158
DJIBOUTI	2,000	2,000	2,000	2,000	0	0	0	0	0	0	0	2,000	0	0	0	0	0	0	0
DROC	26,809	22,809	8,506	7,997	1,149	0	2,134	0	0	0	3,214	1,500	509	18,303	1,422	9,130	4,000	0	3,751
ERITREA	10,319	8,019	1,764	1,483	0	0	553	0	73	601	256	0	281	8,555	505	3,092	2,300	1,828	830
ETHIOPIA	59,629	37,679	16,320	14,404	1,028	0	2,899	0	1,301	0	7,676	1,500	1,916	43,309	7,941	10,087	21,950	0	3,331
KENYA	53,549	27,099	16,389	13,530	955	0	3,136	5,500	2,939	0	500	500	2,859	37,160	6,306	1,656	26,450	0	2,748
MADAGASCAR	21,195	19,195	12,586	11,474	1,068	0	1,644	0	8,762	0	0	0	1,112	8,609	2,736	3,073	2,000	0	800
RWANDA	24,074	11,124	6,218	4,511	2,108	0	2,403	0	0	0	0	0	1,707	17,856	1,882	2,274	12,950	0	750
SOMALIA	1,460	1,460	1,460	679	286	0	61	0	0	0	332	0	781	0	0	0	0	0	0
SUDAN	141,245	136,545	101,680	74,954	20,042	0	27,180	0	0	9,565	17,467	700	26,726	39,565	2,000	30,065	4,700	1,300	1,500
TANZANIA	33,422	15,472	8,708	7,718	1,730	0	1,775	0	3,213	0	500	500	990	24,714	3,961	1,595	17,950	0	1,208
UGANDA	59,210	31,260	21,248	20,427	872	0	3,958	5,500	3,237	0	5,360	1,500	821	37,962	4,194	2,040	27,950	0	3,778
ANGOLA	12,546	10,046	5,057	4,049	1,163	0	2,067	0	0	0	319	500	1,008	7,489	500	2,930	2,500	0	1,559
MALAWI	28,864	17,364	11,378	10,828	487	0	2,470	0	2,746	0	3,625	1,500	550	17,486	2,000	1,918	11,500	0	2,068
MOZAMBIQUE	42,714	28,264	19,804	18,547	6,364	0	4,209	5,500	2,474	0	0	0	1,257	22,910	3,602	4,254	14,450	0	604
NAMIBIA	14,713	7,113	7,113	6,338	658	0	0	0	2,526	0	1,654	1,500	775	7,600	0	0	7,600	0	0
SOUTH AFRICA	66,954	42,504	36,493	32,217	6,857	0	4,394	3,250	6,154	2,807	7,255	1,500	4,276	30,461	1,634	2,377	24,450	0	2,000
ZAMBIA	50,935	25,435	14,364	13,444	1,590	0	2,311	4,000	483	0	3,560	1,500	920	36,571	3,000	4,567	25,500	0	3,504
ZIMBABWE	11,756	1,856	1,559	824	711	0	113	0	0	0	0	0	735	10,197	297	0	9,900	0	0
BENIN	20,300	18,300	11,881	11,238	637	0	956	0	0	0	8,145	1,500	643	8,419	2,657	2,210	2,000	0	1,552
GHANA	40,217	33,217	21,657	20,770	1,992	0	3,405	5,500	1,073	0	7,300	1,500	887	18,560	5,887	3,873	7,000	0	1,800
GUINEA	20,023	17,823	13,821	12,067	853	0	1,167	0	3,499	0	5,048	1,500	1,754	6,202	2,000	2,002	2,200	0	0
LIBERIA	3,600	3,600	1,603	1,058	0	0	1,058	0	0	0	0	0	545	1,997	441	1,556	0	0	0
MALI	36,085	32,085	22,526	21,264	2,369	0	2,657	5,500	4,143	0	5,095	1,500	1,262	13,559	4,974	3,294	4,000	0	1,291
NIGERIA	68,323	43,873	19,908	16,556	2,880	0	4,546	0	1,463	1,427	4,740	1,500	3,352	48,415	11,677	7,173	24,450	0	5,115
SENEGAL	29,421	23,421	13,102	11,447	2,386	0	2,447	0	1,811	0	3,303	1,500	1,655	16,319	3,539	3,411	6,000	0	3,369
SIERRA LEONE	5,080	5,080	4,460	3,118	1,151	0	1,967	0	0	0	0	0	1,342	620	0	620	0	0	0
REGIONAL	148,141	120,641	85,790	80,126	12,204	13,500	12,703	22,500	15,968	500	2,751	0	5,664	62,351	12,345	14,022	27,500	0	8,484
REDSO/ESA	29,715	22,215	17,799	16,037	2,154	4,500	2,274	5,500	1,609	0	0	0	1,762	11,916	1,209	1,823	7,500	0	1,384
AFR/SD	49,782	47,032	28,561	26,609	2,430	0	5,000	6,000	9,928	500	2,751	0	1,952	21,221	2,000	9,971	2,750	0	6,500
AFR/DP	2,500	2,500	2,500	2,500	2,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0
WARP	36,904	27,604	15,640	14,791	1,331	4,500	1,639	5,500	1,821	0	0	0	849	21,264	9,136	2,228	9,300	0	600
RCSA	21,290	21,290	21,290	20,189	3,789	4,500	3,790	5,500	2,610	0	0	0	1,101	0	0	0	0	0	0
So. AFR HIV/AIDS	7,950	0	0	0	0	0	0	0	0	0	0	0	0	7,950	0	0	7,950	0	0
AFR Benchmark	1,263,244	938,244	677,994	547,174	96,140	25,000	107,534	76,000	83,500	14,900	92,100	53,000	130,820	585,250	85,500	118,550	325,000	4,500	51,700
Programmed Below Line	226,700	191,000	188,750	123,050	24,600	11,500	14,265	17,750	21,635	0	4,000	29,300	65,700	37,950	0	0	35,700	750	1,500
Available for Programming	1,036,544	747,244	489,244	424,124	71,540	13,500	93,269	57,250	61,865	14,900	88,100	23,700	65,120	547,300	85,500	118,550	289,300	3,750	50,200
Distributed to OUs	1,036,544	747,244	489,244	424,124	71,540	13,500	93,269	57,250	61,865	14,900	88,100	23,700	65,120	547,300	85,500	118,550	289,300	3,750	50,200
Amount Remaining/(deficit)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Country/Program	FY 2005		DEVELOPMENT ASSISTANCE (DA) ACCOUNT											CHILD SURVIVAL AND HEALTH (CSH) ACCOUNT					
	GRAND	TOTAL	DA	ECONOMIC GROWTH, AGRICULTURE AND TRADE (EGAT)									DCHA	GLOBAL HEALTH					
	TOTAL	W/O AIDS	TOTAL	TOTAL	EG	TRADE Init	AG	AG Init	ENV	HRD	BED	ED Init	TOTAL	TOTAL	FP/RH	CSMH	HIV AIDS	VC	ID
BELOW THE LINE	226,700	191,000	188,750	123,050	24,600	11,500	14,265	17,750	21,835	0	4,000	29,300	65,700	37,850	0	0	35,700	750	1,500
Urban Programs	500	500	500	500	500		0		0	0	0		0	0	0	0	0	0	0
Program to OE Reserve	1,000	1,000	1,000	1,000	1,000		0		0	0	0		0	0	0	0	0	0	0
ONCHO	1,000	1,000	0	0	0		0		0	0	0		0	1,000	0	0	0	0	1,000
SSH	3,000	3,000	3,000	3,000	3,000		0		0	0	0		0	0	0	0	0	0	0
DHRF	2,500	2,500	2,500	0	0		0		0	0	0		2,500	0	0	0	0	0	0
Labor	3,000	3,000	3,000	0	0		0		0	0	0		3,000	0	0	0	0	0	0
CGIAR	2,000	2,000	2,000	2,000	0		865		1,135	0	0		0	0	0	0	0	0	0
Unallocated WVF	3,700	3,700	3,700	0	0		0		0	0	0		3,700	0	0	0	0	0	0
Unallocated DCOF	750	750	0	0	0		0		0	0	0		0	750	0	0	0	750	0
Unallocated Other Orphans	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
Unallocated VOT	3,000	3,000	3,000	0	0		0		0	0	0		3,000	0	0	0	0	0	0
Les Aspin Institute	500	500	500	0	0		0		0	0	0		500	0	0	0	0	0	0
G Micro Trnsfr	7,000	7,000	7,000	7,000	7,000		0		0	0	0		0	0	0	0	0	0	0
Transition	10,000	10,000	10,000	2,000	1,000		0		1,000	0	0		8,000	0	0	0	0	0	0
PACT	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
AFTECH	1,000	1,000	1,000	1,000	0		0		0	0	1,000		0	0	0	0	0	0	0
IFESH	2,000	2,000	2,000	2,000	0		0		0	0	2,000		0	0	0	0	0	0	0
ATLAS	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
Leland Initiative	1,500	1,500	1,500	1,500	1,000		0		0	0	500		0	0	0	0	0	0	0
Elephantiasis	500	500	0	0	0		0		0	0	0		0	500	0	0	0	0	500
ALFALIT	500	500	500	500	0		0		0	0	500		0	0	0	0	0	0	0
IDP Core	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
BioTech Unallocated	6,500	6,500	6,500	6,500	0		6,500		0	0	0		0	0	0	0	0	0	0
Bright Ideas Fund	2,000	2,000	2,000	2,000	2,000		0		0	0	0		0	0	0	0	0	0	0
PD&L	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
Upward Adjustment Rsv.	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
ICASS Program Rsv.	1,600	1,600	1,600	1,600	1,600		0		0	0	0		0	0	0	0	0	0	0
Gorillas	1,500	1,500	1,500	1,500	0		0		1,500	0	0		0	0	0	0	0	0	0
Dairy Directive	6,900	6,900	6,900	6,900	0		6,900		0	0	0		0	0	0	0	0	0	0
SAEDF	5,000	5,000	5,000	5,000	5,000		0		0	0	0		0	0	0	0	0	0	0
Drinking Water	3,000	3,000	3,000	3,000	0		0		3,000	0	0		0	0	0	0	0	0	0
Digital Freedom Initiative	2,500	2,500	2,500	2,500	2,500		0		0	0	0		0	0	0	0	0	0	0
Fast Track Initiative	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
AFTECH	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
Energy	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
Conflict	15,000	15,000	15,000	0	0		0		0	0	0		15,000	0	0	0	0	0	0
MTCT Initiative	35,700	0	0	0	0				0	0	0		0	35,700	0	0	35,700	0	0
Congo Basin Forest Partner.	15,000	15,000	15,000	15,000	0		0		15,000	0	0		0	0	0	0	0	0	0
Anti-Corruption Initiative	7,500	7,500	7,500	0	0		0		0	0	0		7,500	0	0	0	0	0	0
Trade Initiative	11,500	11,500	11,500	11,500	0	11,500	0		0	0	0		0	0	0	0	0	0	0
Education Initative	29,300	29,300	29,300	29,300	0		0		0	0	0	29,300	0	0	0	0	0	0	0
Ag Initative	17,750	17,750	17,750	17,750	0		0	17,750	0	0	0		0	0	0	0	0	0	0
Trafficking in Persons	2,500	2,500	2,500	0	0		0		0	0	0		2,500	0	0	0	0	0	0
Tropical Forestry	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
Unallocated Micro	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
DG Enhanced Request	20,000	20,000	20,000	0	0		0		0	0	0		20,000	0	0	0	0	0	0
	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
	0	0	0	0	0		0		0	0	0		0	0	0	0	0	0	0
TOTAL	1,263,244	938,244	677,994	547,174	96,140	25,000	107,534	75,000	83,500	14,900	92,100	53,000	130,820	585,250	85,500	118,550	325,000	4,500	51,700
AFR Benchmark	1,263,244	938,244	677,994	547,174	96,140	25,000	107,534	75,000	83,500	14,900	92,100	53,000	130,820	585,250	85,500	118,550	325,000	4,500	51,700

AFR/DP
Office of Development Planning
FINAL FY 2003 Allocation of Initiative Funding
($000's)

Country/Program	TRADE Initiative			AG (IEHA) Initiative	ED Initiative	*Islamic Education	Anti-Corruption Initiative	Conflict Initiative
	AG	EG **	Total	AG	BED	BED	DG	Conflict
Angola			-					1,000
Benin			-		600		400	
Burundi			-					
Djibouti			-		2,000			
DROC			-					1,225
Eritrea			-			600		500
Ethiopia			-		1,100	1,000		1,340
Ghana			-		1,100			
Guinea			-		600			600
Kenya			-			2,000	750	700
liberia			-					
Madagascar			-		500		400	
Malawi			-		1,100			
Mali			-	3,400	1,100	1,000		
Mozambique			-	3,700			550	
Namibia			-		600			238
Nigeria			-		600	1,400	500	1,250
Rwanda			-				250	415
Senegal			-		600			1,500
Sierra Leone			-					
Somalia			-					455
South Africa			-		626		500	
Sudan			-					
Tanzania			-			2,000	500	
Uganda			-	3,500	600	1,000		
Zambia			-		600		600	
Zimbabwe			-					977
REDSO	1,500	3,000	4,500	1,950			605	3,000
RCSA	1,500	3,000	4,500	2,000			605	-
WARP****	1,500	3,000	4,500	2,000			605	1,800
AFR/DP			-					
AFR/SD	500	712	1,212	3,450	15,274		235	
Total Allocated	5,000	9,712	14,712	20,000	27,000	9,000	6,500	15,000
Unallocated Initiative	-	-	-	-	-	-	1,000	-
Total Initiative	5,000	9,712	14,712	20,000	27,000	9,000	7,500	15,000

* Of the Islamic Education Initiative, Eritrea, Kenya and Tanzania received plus-ups from the Professional Competence line. Levels for all other countries were absorbed from within the mission's existing OYB.

** The TRADE Initiative EG funding level was $10 million. $287,506 of this amount was OYB transferred from AFR/SD to EGAT as part of the lump sum ə to portfolio realignment.

***Initial Conflict Initiative allocations were $750,000 for RCSA and $2,250,000 for REDSO; however, the $750,000 in RCSA funding was moved under REDSO due to programming decision.

**** Of the Conflict Initiative funds allocated to WARP, $300,000 are for Gambia.

Africa Bureau
Office of Development Planning
FINAL FY 2003 HIV/AIDS and MTCT Levels
($000's)

Country/Program	HIV/AIDS			Proposed But Not Yet Aproved MTCT
	HIV/AIDS	Approved MTCT*	TOTAL	
Angola	2,500	0	2,500	
Benin	2,000	0	2,000	
Burundi	0	0	0	
DROC	4,000	0	4,000	
Eritrea	2,300	0	2,300	
Ethiopia	16,500	2,520	19,020	2,930
Ghana	7,000	0	7,000	
Guinea	2,200	0	2,200	
Kenya	21,500	4,950	26,450	
Liberia	0	0	0	
Madagascar	2,000	0	2,000	
Malawi	11,500	0	11,500	
Mali	4,000	0	4,000	
Mozambique	10,000	2,800	12,800	1,650
Namibia	2,150	5,450	7,600	
Nigeria	18,950	4,750	23,700	750
Rwanda	8,500	4,450	12,950	
Senegal	6,000	0	6,000	
Sierra Leone	0	0	0	
Somalia	0	0	0	
South Africa	18,000	4,900	22,900	1,550
Sudan	0	0	0	
Tanzania	12,500	5,450	17,950	
Uganda	22,500	5,450	27,950	
Zambia	22,500	3,000	25,500	
Zimbabwe	9,900	0	9,900	
REDSO/E	6,500	0	6,500	1,000
RCSA	0	0	0	
WARP	9,300	0	9,300	
AFR/SD	2,750	0	2,750	
AFR/DP	0	35,700	35,700	
South Africa Reg'l	5,950	0	5,950	2,000
Core MTCT Transfer	0	0	0	
TOTAL	231,000	79,420	310,420	9,880
Unallocated	0	9,880	9,880	9,880
PPC/B Control	231,000	89,300	320,300	9,880

REDSO/ESA includes $1.75 million in HIV/AIDS for Burundi.
Nigeria HIV/AIDS includes $500,000 Safe Blood for Africa directive.
Kenya HIV/AIDS includes $500,000 Village of Hope directive.
*** MTCT levels only reflect those approved thus far.**

Africa Bureau
Office of Development Planning
FY 02 - 05 Budget Planning by Sector with Sudan Additive

PILLAR/SECTOR	FY 02 653(a)	FY 03 CBJ Revised Request		FY 03 Draft 653(a) Levels	FY 04 CBJ Controls	FY 05 BPBS Original	FY 05 OMB with Sudan Plus-up
Total EG/Trade/Ag	410,700	449,100		437,240	431,128	517,174	517,174
EG	104,500	116,000		106,140	89,204	121,140	121,140
Ag	115,100	142,000		133,600	134,100	172,534	182,534
ENV	75,600	75,600		83,500	82,200	83,500	83,500
HCD	19,100	20,500		8,000	4,119	8,000	14,900
HCD (Basic)	96,400	95,000	**	106,000	121,500	132,000	145,100
Total Global Health	421,225	458,490		540,480	542,105	585,250	686,250
Pop	85,900	85,900		85,500	80,200	85,500	85,500
CHS	88,210	77,876		78,780	88,550	98,550	118,550
HIV/AIDS	183,250	250,400		320,300	325,000	325,000	325,000
Vulnerable Child	8,745	5,440		4,200	4,500	4,500	4,500
Infectious	55,118	38,875		51,700	43,855	51,700	51,700
Total Democracy/Conflict	60,300	92,500		84,320	67,822	105,820	190,820
Total All Pillars	892,223	1,000,091		1,062,040	1,041,050	1,188,244	1,263,244

Final FY 2005 OMB Control: **1,188,244**
(includes $20 million DG Plus-up per Administrator & Sudan Plus-up

Initiatives included at each of these levels (NOA only):							
AG	5,000	20,000		20,000	43,000	75,000	75,000
Trade	5,000	15,000		15,000	25,000	25,000	25,000
Basic Education	15,000	27,000	**	27,000	50,000	53,000	53,000
HIV/AIDS PMTCT Initiative				89,300	TBD	100,000	100,000
***Tropical Forestry/CARPE	*3,000*	*3,000*		15,000	15,000	15,000	15,000
Anti-Corruption	300	7,500		7,500	6,000	75,000	7,500

* Education in FY 02 includes additional $5 million provided for Basic Ed Initiative
** Revised Education Initiative pledge confirmed by OMB in FY 03 is $27 million, revised up from $22 million requested
*** FY 02 & 03 CARPE were not requested as part of Tropical Forestry Initiative

GUIDANCE ON THE DEFINITION AND USE OF THE CHILD SURVIVAL AND HEALTH PROGRAMS FUND

FY 2003 UPDATE

MAY 23, 2003
FINAL

I. ALLOWABLE USES OF THE CHILD SURVIVAL AND HEALTH PROGRAMS FUND, PROTECTING HUMAN HEALTH

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HIV/AIDS: Agency Objective, "Transmission and the impact of the HIV/AIDS pandemic in developing countries reduced."

USAID is committed to enhancing the capacity of developing and transitional countries to protect their populations not yet infected by HIV and to provide services to those infected and/or affected by the epidemic. For the past four years, Congress has appropriated significant additional funds to USAID in the CSH account "for activities relating to research on, and the prevention, treatment, and control of, Acquired Immunodeficiency Syndrome" and for "children affected by," but not necessarily diagnosed with, HIV/AIDS. In addition, Congress directed contributions for HIV/AIDS from the Economic Support Fund (ESF), AEEB, FSA, and Title II accounts. These funds enable USAID to increase its efforts and impact. In 2001, USAID developed an Expanded Response to the Global HIV/AIDS pandemic and with other donors and host country partners is working toward the achievement of the following international goals by 2008[1]:

- Reduce HIV prevalence rates among those 15-24 years of age by 50 percent in high prevalence countries
- Maintain prevalence below 1% among 15-49 year olds in low prevalence countries
- Ensure that at least 25% of HIV-infected pregnant women in high prevalence countries receive a complete course of antiretroviral prophylaxis to reduce the risk of mother-to-child transmission
- Help local institutions provide basic care and psychosocial support services to at least 25% of HIV infected persons, and provide community support services to at least 25% of children affected by AIDS in high prevalence countries.

The HIV/AIDS pandemic poses a major and growing threat to the health and development of many countries, especially poor countries. As HIV strikes primarily people in their peak productive years, this disease has especially devastating effects on a country's citizens, communities, economy, and national security. USAID's HIV/AIDS operational plan includes the following components:

- *More resources to more priority countries*: USAID has increased the number of countries that receive additional assistance from 17 to 23. Additional priority countries included in the President's initiatives (see below) will also be accorded priority for assistance. The additional countries are Guyana and Namibia. (Botswana and Cote d'Ivoire are also included, but these are non-presence countries.)
- *Continued support for other critical countries and strengthened regional Offices*: USAID will continue some bilateral support to other country programs considered critical and will add staff and resources to Regional Offices to complement these country programs through regional strategies and structures that focus on cross-

[1] The goals/targets initially were for 2007, but this was changed to 2008 to coincide with targets in the President's Emergency Plan for AIDS Relief.

border issues and on "hot spots" within the region, where the epidemic is expanding rapidly.

- *Increased support for field programs*: The Agency is substantially increasing the amount and share of its budget that is provided to the field to scale up prevention, care, and treatment programs and support for families and children affected by AIDS including orphans.
- *More resources for Africa*: Africa remains USAID's highest HIV/AIDS priority and receives the largest share of USAID's increased funding.
- *Increased accountability*: USAID has instituted a more comprehensive monitoring and reporting system to enable decision makers to manage programs well, track the pandemic, measure progress in reaching critical populations, and document program impacts.
- *Strengthened organizational capacity within USAID to combat the pandemic*: The Agency has upgraded its HIV/AIDS Division to Office status, refining the Agency's HIV strategic plan to accelerate program impacts.

USAID's HIV/AIDS strategy focuses on the programs and countries where our assistance can save the most lives. Preventing new infections is our most important objective. We focus our resources on those interventions and those countries where we can make a difference. While prevention will remain the cornerstone of USAID's program, we are significantly expanding programs for care, treatment, and support of people infected and affected by HIV/AIDS, most notably in high-prevalence settings.

President Bush's International Mother and Child HIV Prevention Initiative: The Initiative, targeting 14 countries (12 in Africa plus Haiti and Guyana), focuses on treatment and care for HIV infected pregnant women to reduce transmission of HIV/AIDS to infants. The Initiative is focused in two areas: (1) increasing the availability of preventive care, including drug treatments; and (2) building healthcare delivery systems to reach as many women as possible with the care they need (see also section below on allowable use of funds for MTCT which encompasses both initiative and non-initiative activities/countries.)

President Bush announced in his January 2003 State of the Union address the **Emergency Plan for AIDS Relief**, a five-year, $15 billion initiative to turn the tide in combating the global HIV/AIDS pandemic. This commitment of resources will help the same 14 countries in Africa and the Caribbean in their efforts to prevent and mitigate the impact of HIV/AIDS, including extending and saving lives. Specifically, the initiative is intended to:

- **Prevent 7 million new infections;**
- **Treat 2 million HIV-infected people; and**
- **Care for 10 million HIV-infected individuals and AIDS orphans.**

In May 2003, the House and Senate passed almost identical authorizing legislation, making it clear that in addition to these targets, there will be HIV/AIDS funding directives that will require special reporting for the countries involved.

For more information on these two initiatives please see the White House and USAID websites (www.whitehouse.gov and www.usaid.gov/about/hivaids)

1. Allowable Uses of Funds for HIV/AIDS

Allowable activities for HIV/AIDS are those that contribute directly to reducing HIV transmission and the impact of the HIV/AIDS pandemic on those infected and affected by HIV/AIDS. These require a comprehensive, locally tailored approach that engages sufficient community, government, NGO, and donor resources in a consistent and complementary manner. The strategies should reflect the stage of the epidemic and focus efforts on "those most likely to contract or transmit" HIV. These strategies and their relevant area codes are:

- *HIV/AIDS/Prevention (HIVA):* Prevention continues to be the most urgent priority in
  order to slow and ultimately reverse rising HIV infection rates. This includes developing interventions to change or prevent high risk behavior including "ABC" approaches such as promoting abstinence or delay of sexual debut and messages to be faithful or reduce the number of sex partners; increasing demand for and access to condoms and other essential commodities (e.g. test kits, gloves, antiseptics); treating other sexually-transmitted infections; and promoting voluntary HIV counseling and testing.

- *Mother to Child Transmission of HIV (MTCT):* Mother to child transmission of HIV can occur during pregnancy, during labor and delivery, and after birth through breastfeeding. The best way to avoid MTCT is to prevent women of reproductive age from becoming HIV-infected. However, for the millions of women who are already infected and for those who will become infected in the future, services should be available to women to help protect their infants from HIV infection. Successful programs to prevent MTCT include the following components: voluntary and confidential counseling and testing services for pregnant women; antiretroviral (ARV) prophylaxis for HIV-infected pregnant women and newborns; and counseling and support for maternal nutrition and safe infant feeding practices. (See ADS Chapter 212 – Breastfeeding Promotion Policy.) In addition to these core components, preventing primary HIV infection in pregnant and lactating women and offering counseling or referral for family planning to HIV-infected women are essential to prevent MTCT. Further, a comprehensive MTCT program should provide long-term care and support to families, especially to mothers and young children.

  In settings where pregnant women receive antenatal care, HIV/AIDS laboratory and testing facilities, health worker training and counseling and support services may need to be strengthened in order to support the addition of MTCT program elements (VCT, ARV prophylaxis, and infant-feeding counseling). All resources provided under the President's Mother and Child

HIV Prevention Initiative should be coded MTCT. Non-Initiative countries are also encouraged to undertake programs to prevent mother-to-child transmission of HIV/AIDS and should also code those resources as MTCT.

- *HIV/AIDS Care, Treatment and Support (HCAR):* Care and support for individuals infected with HIV/AIDS, their families and other vulnerable populations is an essential component of USAID assistance. This includes care and treatment for individuals infected to stabilize or improve their physical and mental health. Such care includes planning and delivering antiretroviral drug treatment in the context of limited health resources as well as treating tuberculosis and other opportunistic infections; providing psychosocial and palliative care; providing adequate nutrition; and working with public sector and private groups such as faith- and other community-based organizations to develop care and support.

- *Children Affected by HIV/AIDS (HKID):* USAID is committed to improving the lives of children and families affected by HIV/AIDS. The emphasis is on helping communities develop and sustain strategies to meet the needs of vulnerable children by strengthening the ability of families to provide care and support; mobilizing and supporting community-based responses; helping children and adolescents meet their own needs; creating a supportive social and policy environment; and supporting research and information sharing.

  Allowable activities include increasing the coverage of efforts that effectively support community activities at the individual, household and community level, such as volunteer visiting programs; material support such as food, shelter, clothing and blankets; economic strengthening activities; increasing access to education for children affected by HIV/AIDS so that they have the same access to education as other children in the community; counseling and on-going emotional support; peer support and guidance provided by older children to younger children; supporting parents in planning for the future care of their children; protection from abuse; and interventions by which communities address the stigma that is often directed at people living with HIV/AIDS and their families.

- *Policy Analysis, Reform and System Strengthening (PARH):* The profound impact of the HIV/AIDS pandemic requires a major effort to improve public sector policies, systems and service delivery to address issues of stigma and discrimination, carry out national HIV/AIDS prevention efforts, provide care and treatment for those infected and support those affected. Allowable activities include policy reform, quality assurance, pharmaceutical information systems, analysis of demographic and health data and planning and evaluation when these support expanded HIV/AIDS prevention and care programs. When these are carried out through integrated PHN programs, Missions should pay particular attention to the guidance on the use of

HIV/AID funds and coding and co-programming in the section that follows on special considerations.

- *Support the Development of Quality Proposals, Build Capacity to Support Implementation, and Test Best Practice Approaches for Inclusion in Proposals to the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) (PARH):* The Global Fund is a financing mechanism intended to provide additional, complementary funding to supplement existing donor and national efforts to combat the three diseases. It has no country presence or ability to provide technical assistance to develop quality proposals or build capacity to support successful implementation of approved proposals. Country proposals are developed through a Country Coordination Mechanism (CCM) that includes government, non-governmental organizations, community-based organizations, private sector entities, bilateral and multilateral agencies, and other local partners with an interest or stake in programs that address the three diseases. Missions can play a critical role at country level by actively supporting and participating on CCMs, providing technical support to help CCMs identify quality interventions consistent with existing USAID strategies and programs, and building technical, administrative, and organizational capacity of entities responsible for implementation and reporting on results of Global Fund programs. Adapting and testing best practice approaches developed elsewhere that could be scaled up with Global Fund support would also be of great help to CCMs as they develop Global Fund proposals. Operating units that support Global Fund applications should ensure that funds are coded proportionally relative to the relevant activities supported, that is, for HIV/AIDS (PARH), Tuberculosis (TUBD), and Malaria (MALD) (see page 49 for further explanation on co-programming).

- *HIV/AIDS Surveillance (SURH):* Accurate, current data about HIV, STI and risk behaviors are essential for planning and evaluation. Activities can include the development of improved tools and models for collecting, analyzing, and disseminating HIV/AIDS behavioral and biological surveillance and monitoring information; assisting countries to establish and/or strengthen these systems; and defining and disseminating "best practices" to improve program efficiency and effectiveness.

2. Special Considerations in HIV/AIDS Congressional Directives

In FY 2000, Congress passed a bill (The Global AIDS and Tuberculosis Relief Act of 2000) that established targets for FY 2001 and FY 2002 for children and mother-to-child transmission, microbicide research, and NGO programming. The recent FY 2003 appropriation legislation has continued to emphasize the importance of these programs by setting specific targets for microbicide research and mother-to-child transmission. While no explicit targets for children were established in the recent legislation, support for children affected by HIV/AIDS continues to be an important

component of USAID's HIV/AIDS strategy, and Congressional interest remains high. These targets with their specific directives are described below.

- **Children, Including Orphans, Affected by HIV/AIDS:** Although there is no general Congressional earmark in the CSH budget, the House Appropriations Committee urges USAID to spend "at least $20 million" for children affected by HIV/AIDS. Accordingly, USAID encourages Missions to support efforts that include a focus on orphans and other vulnerable children affected by HIV/AIDS. As previously discussed, funds may be directed to (1) community-based efforts that impact on the protection and well-being of orphans and other children and adolescents affected by HIV/AIDS; (2) increase capacity at local and national levels for program design, implementation, monitoring and evaluation, and for sustaining effective efforts; (3) identify program models that are most effective, efficient and sustainable; and (4) share lessons learned with local, national, and with global partners.

- **Reducing Mother-to-Child Transmission (MTCT) of HIV/AIDS:** In FY 2001, 2002, and 2003, Congress, through the Global AIDS Act, set funding targets for MTCT programs. In the FY 2003 Appropriation, Congress allocated $100 million for 14 countries (see page 26) under the International Mother and Child HIV Prevention Initiative, as requested by the President in September 2002. In areas where prevalence is high (exceeding 5% in pregnant women), Missions are strongly encouraged to develop and provide MTCT activities as previously described. In order to use CSH HIV/AIDS funds to improve services for pregnant and postpartum women, Missions must be able to demonstrate a direct contribution to increased access to MTCT services.

- **Microbicide Research and Development for HIV/AIDS Prevention:** As in FY 2001 and FY 2002, Congress directed that funds be used for microbicide research and development in FY 2003. USAID/W anticipates funding microbicide efforts through central agreements. Missions may be asked to participate in relevant microbicide activities. Examples of activities include the following:

  - Supporting the discovery, development and preclinical evaluation of topical microbicides (alone and/or in combination);
  - Developing and assessing acceptable formulations and modes of delivery for microbicides, bridging knowledge and applications from the chemical, pharmaceutical, physical, bioengineering, and social sciences;

  - Conducting clinical studies of candidate microbicides to assess safety, effectiveness and acceptability in reducing sexual transmission of HIV and/or other STIs in diverse populations in international and domestic settings;

- Conducting basic and applied behavioral and social science research to enhance microbicide development, testing, acceptability, and use domestically and internationally; and
- Establishing and maintaining the appropriate infrastructure (including training) needed to conduct microbicide research domestically and internationally.

Field operating units will not be required to code for microbicides as USAID/W will be funding microbicide research and development, including clinical trials, through central agreements.

- **Vaccine Research for HIV/AIDS:** USAID/W funds vaccine research efforts through the International AIDS Vaccine Initiative. Field operating units will not be required to code for vaccine efforts as USAID/W will be funding research and development, including clinical trials, through central agreements, but Missions may be asked to participate in relevant activities. Example of activities include: vaccine research and development including clinical trials; training of personnel in Good Clinical Practices; preparing communities for vaccine trials; training for developing country journalists; and policy efforts to encourage national governments to establish practical and effective public policies for accelerating AIDS vaccine development and testing, and to ensure that once a vaccine is developed it is widely accessible in as short a time as possible.

- **Use of Non-governmental Organizations for HIV/AIDS Programming:** Congress urges the continued support of private and voluntary organizations and cooperatives in the delivery of grassroots assistance that utilize the special expertise and local knowledge of PVOs and cooperatives. Congress anticipates major flows of funding and activities through private voluntary (PVO) and non-governmental organizations (NGO). Country programs should maximize the use of NGOs.

3. Other Special Considerations for the Use of HIV/AIDS Funds:

- **"ABC" (Abstinence, Be Faithful, Use Condoms) Approach:** As underscored in the Administrator's December 30, 2002 cable (State 267675) and in other communications, it is Agency strategy to promote a balanced, evidence-based approach to behavior change prevention, known as the "ABC" approach. "ABC" is an umbrella term that encompasses a range of risk-reduction behaviors, including but not limited to: abstinence among unmarried people, including delay of sexual debut among youth; fidelity and partner reduction among sexually active populations; and condom use, especially correct and consistent use for high-risk/non-regular partners and sero-discordant couples. While the optimal mix of activities will vary according to societal norms, the stage of the epidemic, key target populations, etc., normally all three of the ABC elements should be

utilized, and in fact, "ABC" should represent a unified/coherent message framework, usually not to be promoted as stand-alone messages of A, B or C. Even in lower prevalence epidemics that are concentrated among the highest-risk populations, to the extent that programs will also include some focus on general population or youth, the activities should similarly employ a comprehensive, ABC-based approach. Promoting one element, such as abstinence only or only condom social marketing, does *not* represent an "ABC" approach. However, consistent with the Administrator's cable of December 30 2002, prospective contractors and grantees do not need to offer services in all three areas to be eligible for funding, although the total programmatic efforts of operating units should reflect all three approaches. For more detailed guidance on implementing ABC approaches, please contact Daniel Halperin (GH/OHA).

- **Voluntary Counseling and Testing (VCT):** HIV prevention and care are inextricably linked components of the stepped up war against AIDS. HIV voluntary counseling and testing serves as a unique bridge between the two. VCT, which has been and continues to be coded as an HIV prevention activity, has expanded in scope to have a critical role as an entry point to care. Programs that support HIV VCT must simultaneously consider strategies for the care, support and treatment (if available) of HIV-positive persons identified through VCT programs.

- **Multi-sectoral Programs for HIV/AIDS:**

"The HIV/AIDS pandemic is not just a health sector issue; it is the business of every officer in every sector in the Agency. It is imperative that USAID staff in heavily affected countries consider HIV-prevention programming in all sectors and not just as part of the Mission's health programs."

- Administrator Natsios, State Cable 097109 (2001)

All USAID operating units implementing HIV/AIDS programs in high HIV prevalence countries[2] are strongly encouraged to adopt a multi-sectoral approach aimed at combating the HIV/AIDS pandemic and mitigating the negative impacts of HIV/AIDS on development. CSH funds can be used for the HIV/AIDS components of broad sectoral or multi-sector activities that contribute directly to the Agency strategic objective "HIV transmission and the impact of the HIV/AIDS pandemic in developing countries reduced." While CSH HIV/AIDS funds can be used for the HIV/AIDS-related components of broad sectoral or multi-sectoral programs, operating units must use other funds to support activities that do not have a direct and measurable impact on HIV/AIDS. The use of CSH funds is always governed, first by the Congressional directives, followed by the Agency's HIV/AIDS results framework, and then the Agency's commitment to helping meet international HIV/AIDS prevention and care goals. For a more complete description of the guidelines governing multi-sectoral HIV/AIDS

[2] at least 5% of adults 15-49 years old infected

activities, see Appendix III.

- **Co-Programming of HIV/AIDS Funds with Other Accounts**: HIV/AIDS funds, under the CSH Programs Fund, may be utilized under certain restrictions with other account funds in a single integrated program. HIV/AIDS funds must still be used for the purposes intended by Congress and must be reported and coded separately. Operating units must use clear language in defining what HIV/AIDS funds are being used for, especially when programs are jointly funded by the CSH account, DA account, and/or other funding accounts (Economic Support Fund, Freedom Support Act, etc). Operating units will be required to disaggregate CSH and other activities in Congressional notifications and in annual reporting.

- **Co-programming Using Food for Peace (FFP) – P.L.480 Title II**: Operating Units are reminded that CSH funds may be used in conjunction with Title II resources for greater impact in HIV/AIDS prevention and mitigation. Title II resources are to be utilized in support of food security objectives. Where HIV/AIDS affects food security, the use of Title II resources to mitigate this impact may be appropriate.

- **Commodities**: HIV/AIDS commodities (condoms, HIV test kits, and drugs) are critical for prevention, diagnosis, and treatment of opportunistic and sexually transmitted infections, including HIV/AIDS. The CSH Programs Fund may be used for commodity procurement for HIV/AIDS. However, the projection of future worldwide needs in this area is staggering and cannot be met through any single fund. One attempt to help mitigate this dilemma is establishment of a commodity fund (see discussion in the following bullet). Nevertheless, in responding to the AIDS epidemic, operating units are encouraged, where possible, to use CSH and other USAID resources to *leverage and mobilize* other donor/local resources in order to help meet the enormous needs worldwide.

  For clarification on condoms, the HIV/AIDS budget category cannot be used for the purchase of contraceptives *for family planning only* nor used to make up for shortfalls in the FP/RH category activities or in any other program. However, within the CSH Programs Fund, HIV/AIDS budget category funds may be appropriately used for purchasing *condoms for HIV/AIDS prevention.*

  Missions may purchase HIV test kits and pharmaceuticals provided they can demonstrate (1) the safety, efficacy, and quality of the product or the product meets the standards of the Food and Drug Administration (FDA) or other U.S. controlling authority and (2) that the product or commodity purchased is properly licensed, registered, or otherwise approved for use in the recipient country. Additionally, Missions may purchase HIV test kits manufactured outside of U.S. "source/origin" that are listed in Tab 1 of the January 11, 2001 Action Memorandum to the Administrator or that have been subsequently approved by AA/M. This memorandum is attached to the March 6, 2001, Agency Notice and

is found online (USAID intranet only) at: http://www.usaid.gov/pubs/ads/300/updates/iu3-0101.doc. Missions interested in purchasing pharmaceuticals for HIV/AIDS-related programs, including antiretroviral drugs, should refer to ADS 312.5.3c. GH/OHA is exploring a mechanism to assist Missions in procuring pharmaceutical products (including antiretrovirals and associated drug management and logistics support) and medical supplies. Contact Gerald Jennings (GH/OHA) for more information.

- **Commodity Fund (CF):** The Agency has developed an operational plan for its HIV/AIDS Expanded Response strategy. One aspect of this plan includes a commodity fund to centrally finance condoms and potentially other essential items for HIV/AIDS programs and ensure their expedited delivery to countries.

  The fund has received $27.8 million in FY 2003 to centrally fund condoms for HIV/AIDS and to ensure their expedited delivery to countries. This fund is intended to increase condom availability and use by making condoms for HIV prevention free of charge to Missions according to CF resource availability and the following criteria:

  1. Condoms for HIV prevention will be free to all Rapid Scale-Up and Intensive Focus countries as well as to Basic countries in sub-Saharan Africa and all HIV regional programs.
  2. Condoms for HIV prevention will be free to all other Basic countries and any other country on a case-by-case basis.

  Missions with questions regarding male condoms should correspond directly with Bonita Blackburn (GH/PRH/CSL) and Carl Hawkins (GH/PRH/CSL).

  It is recognized that condom availability and use in most countries is inadequate. The commodity fund helps to fill this important gap. The purpose of making condoms for HIV/AIDS prevention free to Missions is to expand access to HIV/AIDS condoms. It is expected that these condoms will be additive to country programs and expand HIV/AIDS activities, and that Missions will not swap condom provision responsibilities with other donors such that availability and use remain unchanged.

  Because Missions, as indicated above, will no longer need to budget and allocate funds for condom and other commodity shipments, funds allocated to operating units will be available for related programmatic activities. Such activities include promoting risk-reduction behaviors such as abstinence, delayed onset of sexual relations, fidelity and partner reduction as well as condom use and use of services to control sexually-transmitted infections (especially for those most at risk of HIV/AIDS).

  USAID also plans to centrally procure female condoms as part of the Commodity Fund. These condoms will be procured in limited quantities (4-7% of total CF

resources). GH continues to seek mission experience on the use of female condoms in order to inform the appropriateness of future procurements. Female condoms will be free to all Missions that expressed interest in response to the June 2002 survey. Missions with questions concerning female condoms should contact Doris Anderson and Diana Prieto for more information.

In the future, HIV test kits will be considered for the CF. In FY 2003, limited funds are available through the DELIVER Project to assist with the procurement of test kits (forecasting, delivery system improvement, etc.) but not for the purchase of test kits themselves. Contact Steve Hawkins (GH/PRH/CSL) regarding DELIVER assistance. Please note that GH/OHA will be providing technical information on HIV rapid tests. Contact Charlene Brown (GH/OHA) for more information.

- **Use of HIV/AIDS Funds for Control of Tuberculosis (TB)**: Tuberculosis is a major cause of death for individuals with HIV/AIDS. Because TB is so often an opportunistic infection secondary to HIV/AIDS, posing a significant risk to the public, TB control activities related to HIV/AIDS programs may, when necessary, be funded with HIV/AIDS monies to the extent that these activities are primarily conducted to address persons with dual HIV and TB infection. General TB prevention and control programs must be funded with CSH/Infectious Diseases funds earmarked for tuberculosis, not HIV/AIDS funds.

- **HIV/AIDS Prevention Programs for Injecting Drug Users (IDUs)**: USAID is committed to supporting effective strategies to prevent the spread of the HIV/AIDS pandemic by injecting drug users. However, USG policy is not to use federal funds for the purchase or distribution of injection equipment (needles and syringes) for injecting illegal drugs. Therefore, USAID funds may *not* be used to purchase commodities to be used in either a needle/syringe exchange program or research programs on needle/syringe exchange.

  Many other activities targeting IDU and HIV/AIDS reduction are acceptable in a USAID-funded program. Examples include the following:

  - Providing factual information about the medical risks associated with the sharing or re-use of needles, syringes, and other drug equipment;
  - Supporting certain components of a comprehensive risk reduction program, including but not limited to community outreach;
  - Educating about the risks of injecting drugs and sharing needles;
  - Referring to health care and drug treatment services for IDUs;
  - Counseling and testing;
  - Condom purchase and distribution; and
  - Safe sex education.

  While USAID implementing agencies may cooperate with other donors and governments that fund those activities not permitted to be funded by USAID, in

these cases, the USAID funds must be segregated and coded separately.

The appropriate code for activities to prevent the transmission of HIV/AIDS including information, education, and communication activities supporting behavior change is HIVA. For further programmatic or coding questions, please contact David Stanton GH/OHA for more detailed guidance.

- **Use of CSH Programs Fund to Address HIV/AIDS in Military, Police, Prisons or other Law Enforcement Agencies**: In many HIV high-prevalence countries military and police populations are known to be high risk groups that have a direct negative influence on the HIV transmission dynamics in the general civilian population. With HIV prevalence in some militaries estimated at 40 to 60 percent, their potential to infect others is enormous. In other countries where that prevalence is not yet high, it is essential to head off such an extreme situation before it occurs. In both cases, failure to include such groups in HIV/AIDS activities will pose a severe threat to the health of the public at large and diminish the likelihood that any HIV/AIDS prevention and mitigation program could succeed. The CSH Programs Fund may be used to address HIV/AIDS in military, police, prisons or other law enforcement agencies, subject to compliance with legislative prohibitions on other support to such agencies. These prohibitions are described below.

  Section 660 of the Foreign Assistance Act of 1961, as amended, prohibits the provision of training, advice, or any financial support for police, prisons, or other law enforcement forces subject to the exceptions of FAA Section 660. In addition, general principles of appropriation law prohibit the use of foreign assistance funds for military purposes. However, GC has issued an opinion that these prohibitions will not apply to assistance used only for the prevention, treatment, and control of, and research on, HIV/AIDS in the military, police, prisons and other law enforcement forces, if the following conditions are met:

  a) The programs or activities in which the military, police, prisons or other law enforcement forces would participate are part of a larger public health initiative to combat HIV/AIDS, and exclusion of the military, police prisons or other law enforcement forces would impair the achievement of the initiative's public health objectives;

  b) The program for the military, police, prisons or other law enforcement forces must be similar to that received by other population groups similarly situated, in terms of HIV/AIDS transmission risk and prevention; and

  c) Neither the program or activities, nor any commodities transferred under the program, can be readily adaptable for military, police, prisons or other law enforcement forces purposes.

Recent Congressional appropriations for HIV/AIDS have resulted in a general increase in HIV/AIDS prevention and mitigation activities involving the military, police, prisons or other law enforcement forces. As a result, GC has received a number of inquiries as to the inclusion of these groups, mostly concerning condition b) above. In response GC has emphasized that the requirement for similar programs means similar in subject content, e.g., how HIV/AIDS is acquired, how it is transmitted, and how transmission can be avoided. As long as the training and materials are designed to deal with such acceptable subjects, they meet the test. It is not required that there be one uniform set of training materials appropriate for use by military, police, prisons or other law enforcement forces and also by the other groups in society, say younger school children. Clearly the language, content, and method of delivery could and should vary depending on the audience.

The General Counsel's Office has also advised that it would be appropriate to have particular activities that are directed only toward the military, police, prisons or other law enforcement forces as well as those directed to other groups, as long as they are designed only to support HIV/AIDS prevention and combat its transmission. A conference or design workshop attended only by military, police, prisons or other law enforcement personnel would be appropriate to discuss frankly the extent of the problem in their midst, how to combat it in their structure (e.g., an officer's responsibility to see that his subordinates are fully informed and are discouraged from engaging in high risk behavior or from frequenting known high risk establishments). Under the same HIV/AIDS country or regional program, a conference for village health workers on avoiding mother to child transmission may well exclude military, police, prisons and other law enforcement personnel as not being relevant to them. Both however are in pursuit of the broader goal and thus appropriate for USAID funding.

Therefore, it is appropriate and legally permissible to include military, police, prisons and other law enforcement forces in all comprehensive HIV/AIDS programs in conformance with the three legal criteria outlined above. Indeed, including those groups may well be critically important to the success of the programs. In the design and implementation of HIV/AIDS programs, it is also appropriate to have training sessions or materials focused specifically on individual groups as long as the activities are in pursuit of the overall program goal.

From a legal standpoint, use of CSH funds for this purpose does not require a specific, written request or formal approval if this guidance is followed. However, operating units should be aware that as a policy matter, the approval of Bureaus or Offices in USAID/W might be required before HIV/AIDS assistance is provided to the military, police, prisons or other law enforcement personnel. Therefore, Missions are asked to confirm procedures with their Bureaus. Operating units must document the decision and follow such procedures. If it is a

close question or if you are confused about applying the three criteria above to determine whether inclusion of the military, police, or other law enforcement agencies as part of a larger overall HIV/AIDS program is appropriate or authorized, please contact your regional legal advisor or GC advisors.

Sub-Saharan Africa
Recent Economic Data*

General Background

- Sub-Saharan Africa covers an area of approximately 24 million square miles and contains a population of over 680 million people.

- SSA contains over 10% of the world's population but generates only 1% of the world's gross domestic product (GDP).

- South Africa and Nigeria, by far the largest economies on the continent, account for 25% of the total population of Africa and 50% of total GDP.

- To date, 18 full Poverty Reduction Strategy Papers (PRSPs) from countries in SSA have been endorsed by the Boards of the IMF and World Bank. (*IDA and IMF*)

Economic Growth

- GDP growth between 2001 and 2002 remained constant at 3.2% but is projected to rise to 3.8% in 2004.

- This puts SSA's projected 2004 growth rate above that of all other developing regions, excluding East Asia and the Pacific (6.4%), and South Asia (5.8%).

- However, given the current population growth rate of 2.2%, SSA will have to grow by over 6% per annum in order to meet the Millennium Development Goal (MDG) of reducing poverty in half by 2015.

- In fact, the number of individuals in SSA projected to be living on less than $1 per day in 2015 is 404 million, as compared to 315 million in 1999. This represents nearly half of all the people in the world who are expected to be living on less than $1 per day by 2015 (Total: 809 million). Therefore, while poverty rates are expected to decline worldwide, poverty in Africa is expected to increase

- In 1999, less than 3 out of 10 of the world's poor (living on less than $1 per day) were living in Africa. By 2015, this is expected to have risen to 1 in 2.

- Average per capita growth in Africa between 1993 and 2000 was only 0.7%. Between 2001 and 2002, this rose only slightly to just over 1%.

- At present, average gross national income (GNI) in Africa stands at only $450 per person.

* Unless otherwise noted, all information was taken from various World Bank data bases and publications.

- Despite the recent worldwide economic slump, SSA did benefit from an upturn in commodity prices in 2002: cocoa prices rose by 80 percent, robusta coffee by 20 percent, cotton by 33 percent, copper by 7 percent, and gold by 10 percent.

- Although over 70% of the population derives their income from agriculture, agriculture contributes only 30% to GDP.

Inflation

- Since the mid-1990s, African countries have made substantial progress toward macroeconomic stability, with average inflation expected to fall to 3.9% in 2003 for the continent as a whole. This is a dramatic drop from the average over the last 20 years which stands at just under 10%.

- Progress has been particularly notable in long-lasting, high-inflation cases such as the Democratic Republic of the Congo.

Foreign Direct Investment

- The stock of foreign direct investment (FDI) in Africa increased almost fivefold, to just under $150 billion, between 1980 and 2000.

- However, most FDI has been directed toward the primary sector, with the nine oil exporting countries accounting for about 75 percent of FDI infows during the 1990s.

- Moreover, FDI experienced a dramatic drop of nearly 50% between 2001 and 2002, going from 13.8 billion in 2001 to 7 billion in 2002. Although this still represents a modest increase over 2000, which stood at 6.1 billion and, in addition, is higher than the FDI flowing to either the Middle East (3 billion) or South Asia (5 billion) in 2002.

African Debt

- Of the 33 countries classified by the World Bank as severely indebted low-income countries, 26 are in sub-Saharan Africa. (*HIPC website*)

- Over 80 percent of the highly indebted poor countries (HIPC) are also in Africa. (*HIPC website*)

- Average total debt service for the sub-continent as a proportion of exports of goods and services—a measure of a country's ability to repay its loans—has increased to 10.7 percent in 2002, well below the critical 15 percent mark that is generally viewed as unsustainable.

- This reflects a 38% drop in the debt-service ratio from 1998 and a 16% drop from 1980. Thus, the continents debt-service position has continued to strengthen over time.

- As of July 2003, 22 countries in SSA have had their debt reduced by $42,184 million in nominal terms, or $25,110 million in NPV terms, through the HIPC and Enhanced HIPC Initiatives. Six of these countries have reached their completion points. The remaining countries have reached their decision points and can therefore expect to receive additional debt relief upon reaching their completion points. (*IDA and IMF*)

Trade

AGOA

- U.S. total trade with sub-Saharan Africa (exports plus imports) rose 36% in the first half of 2003 when compared with the same period in 2002. In fact, both exports and imports increased over the period. (*US Department of Commerce*)

- U.S. overall imports from SSA showed a healthy increase in the first half of 2003, rising by 44% to $11.9 billion. (*US Department of Commerce*)

- AGOA imports in the first half of 2003 totaled $6.6 billion, 66% more than in the first six months of 2002. (*US Department of Commerce*)

- Although petroleum products continued to account for more than 75% of total AGOA imports, textiles and apparel accounted for $513 million of the total with a 41% increase and transportation equipment accounted for $326 million of the total with a 33% increase. (*US Department of Commerce*)

- The top three beneficiary countries for AGOA continue to be Nigeria, South Africa, and Gabon. However, several other countries showed strong growth in AGOA imports including, Republic of the Congo, Mozambique, Swaziland, Kenya, Cote d'Ivoire, Cameroon, Lesotho, and Mauritius. (*US Department of Commerce*)

General

- Sub-Saharan Africa is an important supplier of goods and raw materials to the world market. It supplies close to 80% of the world's cocoa and is also a major supplier of precious metals including coltan, an essential ingredient for the production of electronic devices such as pagers, laptops, and cellular phones. (*US Central Intelligence Agency*)

- In addition, SSA is an important supplier of lumber, coffee, cotton, gold, coal, crude oil, and diamonds. (*US Central Intelligence Agency*)

- Even so, due to the low prices commanded by many primary products, sub-Saharan Africa's exports still only comprises about 2% of world trade. (*US Central Intelligence Agency*)

- Still, merchandise export growth for Africa in 2003 is projected at 9.6%, substantially higher than that for either the Middle East and North Africa (-0.5%) or Latin America and the Caribbean (5.8%), and just below the average for all developing countries (10.8%) over the same period.

AFR/DP/POSE
September 2003

What Donors are Doing to Improve Effectiveness of Aid

Harmonising Donor Practices for Effective Aid Delivery

Workshop on Donor Practices

17 June 2003
Birmingham University

OECD OCDE

- **What is the problem?**
- What developing countries think about it?
- What can donors do about it?
- How can we make progress?

Why is aid underperforming?

THE REALITY:

Too little coordination among donors

Too many projects with different procedures.

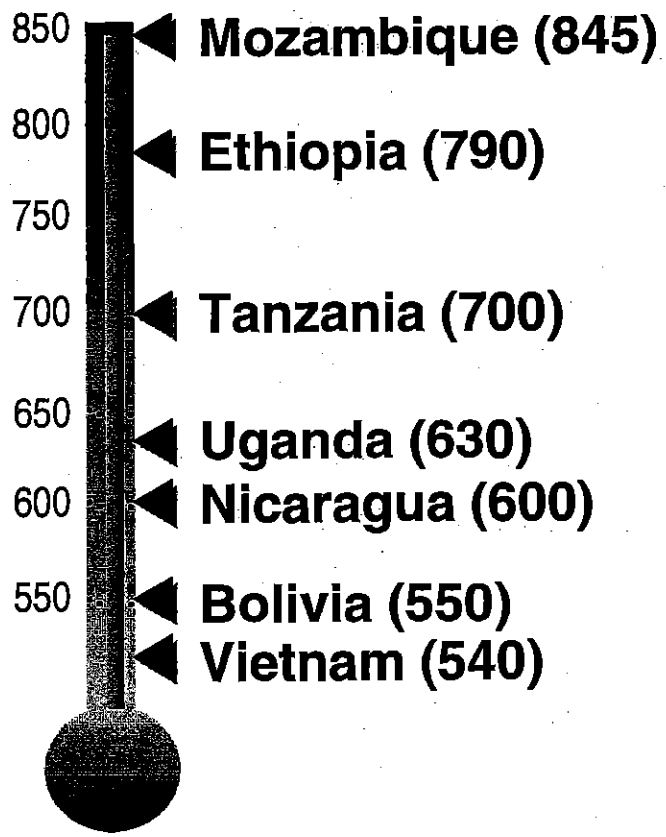
ITS CONSEQUENCES:

Developing countries cannot handle these demands.

Low ownership over their own development process.

Poor performance.

Who's paying the highest price?



Avg. Num. of New Development Activities per year (1999-2001)

OECD OCDE

- What is the problem?
- **What developing countries think?**
- What can donors do about it?
- How can we make progress?

Needs Assessment Survey

A survey was commissioned to identify:

- **The specific problems** (not Donors' needs)
- **Potential solutions** (i.e. good practices)

The survey consulted 400 practioners in 11 developing countries:

- **Senior government officials**
- **NGOs and civil society**

The problem:

1	Donor driven priorities & systems	
2	Difficulties with donor procedures	
3	Uncoordinated donor practices	
4	Excessive demands on time	
5	Delays in disbursements	
6	Lack of information	
7	Demands beyond national capacity	

The solutions:

1	Simplify procedures & systems	
2	Harmonise procedures	
3	Align procedures on recipients	
4	Share information	
5	Untie aid	
6	Respect national priorities	
7	Strengthen local capacity	

- What is the problem?
- What developing countries think?
- **What can donors do about it?**
- How can we make progress?

The DAC's action plan...

...is set out in a publication:

- **"Harmonising Donor Practices for Effective Aid Delivery"**

It explains how donors can improve aid effectiveness by:

- **Simplifying their procedures.**
- **Harmonising their procedures.**
- **Aligning their practices on partners' systems.**

Six thematic areas:

- ✓ Framework for Donor Co-operation.
- ✓ Preparation of Projects & Programmes.
- ✓ Measuring Performance in Public Financial Management.
- ✓ Reporting & Monitoring.
- ✓ Financial Reporting & Auditing.
- ✓ Delegated Co-operation.

- What is the problem?
- What developing countries think?
- What can donors do about it?
- **How can we make progress?**

The challenges ahead of us

- Moving from principle to practice.
- Changing corporate culture and practices within donor agencies.
- Achieving real changes at country level

Rome High Level Forum

Donors agreed to take action:

- **Individual Donor systems:**
  - →Reform corporate culture (new incentive structures).
  - →Change procedures.
- **Between donors:**
  - →Deliver aid in accordance with partner country priorities & systems.
  - →Rationalise their activities and missions.
- **Partner countries:**
  - →Country based action plans on Harmonisation
  - →Take the lead on co-ordination activities.

DAC will support these efforts

Tracking progress towards commitments made at Rome:

- Framework of indicators.
- Donors will self-report.

Maintain peer pressure for implementing agreements on harmonisation:

- Review progress at regular intervals.
- Integrate harmonisation in DAC peer review.
- Consider more focused peer reviews.

New DAC Working Party

WP Aid Effectiveness and Donor Practices:

- ✓ Harmonisation & Alignment.
- ✓ Financial Management (harmonisation).
- ✓ Procurement.
- ✓ Untying aid.
- ✓ Result-Based Management.

October 2, 2003

INFORMATION MEMORANDUM

TO: AFR Mission Directors

FROM: AA/AFR, Constance Berry Newman

SUBJECT: Harmonization of Donor Procedures

SUMMARY

The harmonization of donor procedures is an important component of the aid effectiveness debate and is prominently featured in a number of aid coordination fora in which USAID participates. In spring 2003, the OECD/DAC published a series of "good practice" papers that contain a number of practical steps donors can take to improve the efficiency of the assistance they deliver. In 2005, the international community will meet to review progress in implementation of the harmonization agenda. This memorandum outlines some basic steps USAID/AFR can take to implement this agenda.

DISCUSSION

Why Should USAID/AFR Care About Harmonization?

The harmonization of donor procedures - procedures that govern program design, implementation, reporting, evaluation, etc. - has become a major part of the effort to implement the principles of "partnership" and "mutual accountability," both of which are thought to improve the effectiveness of aid and therefore feature prominently in recent initiatives, such as the New Partnership for Africa's Development and the Millennium Challenge Account. Donors are increasingly recognizing that they have too often undermined the accountability relationship that should exist between developing-country governments and their citizens. Rather, donor procedures have tended to reinforce the accountability relationship between developing-country governments and donors, often in order to satisfy donor agencies' needs to be accountable to their own legislative authorities and publics. The result has been a proliferation of donor-driven projects that are not very well coordinated and which are accompanied by many different procedures.

The multitude of donor procedures can have the effect of overwhelming already strained capacity in developing countries, contributing to poor performance. In an effort to remedy the situation, donors have made harmonization a major topic of discussion in various aid coordination fora in which USAID engages. For example, it is the main focus of the recently formed OECD/DAC Working Party on Aid Effectiveness, and the Strategic Partnership with Africa will track the extent to which donors are harmonizing their procedures in support of African poverty reduction strategies. In addition, at the February 2003 High-Level Forum on Harmonization in Rome, delegates agreed to hold stocktaking meetings in 2005 to review progress in implementing the Rome Declaration.

The OECD/DAC Good Practice Papers

In spring 2003, the OECD/DAC published a series of "good practice" papers on harmonization of donor procedures, copies of which are attached to this memorandum. These papers are the result of a two-year effort examining ways in which donors can improve the efficiency of the assistance they deliver. The longer-term vision is one in which donors **align** their procedures with developing-country systems. Where this is not possible, perhaps due to capacity constraints or the lack of proper transparency, donors should work to **harmonize** procedures among themselves while supporting efforts by partner countries to develop their own viable systems. If harmonization among donors proves too costly, it is likely that donors can still take a number of steps to **simplify** their procedures to enhance their flexibility to respond more appropriately to the unique circumstances of a given country.

A Strategy for USAID/AFR

I recognize that capacity constraints in many cases may not allow us to rely on host country systems to meet our accountability requirements. Where this is possible, I certainly encourage USAID/AFR Missions to do so. However, the OECD/DAC good practice papers include a number of practical suggestions that can be implemented to better effect by all USAID/AFR Missions under existing USAID programming guidelines. In particular, I request that Missions endeavor to:

- Undertake more analytical, program and activity design, diagnostic, and evaluative work jointly with partner governments and other donors. This includes relying on work already produced by others when possible.

- Identify and adopt common data collection systems, performance

measures, and reporting requirements that are acceptable to most partners, especially in cases in which activities are being supported by multiple partners.

- Share analytical work, country strategic plans, diagnostic tools, indicators used to monitor USAID activities, and information on aid flows with partner governments and other donors in a timely manner to allow for collaborative planning.

I encourage you to share with us examples of instances in which you have engaged in harmonization activities of the type outlined above. As the 2005 stocktaking meetings approach, AFR/DP will undertake a survey to more comprehensively examine the extent to which Missions have implemented these good practices.

I am also requesting that staff in Washington contribute to the implementation of the harmonization agenda:

- AFR staff in Washington, particularly AFR/DP/POSE and AFR/SD, will familiarize themselves with the OECD/DAC good practice papers so that the good practices are reflected in the advice Washington provides to Missions during the development of strategy documents and performance monitoring plans.

- I will send a memorandum to other USAID Bureaus informing them that AFR's work will be guided by some of the principles found in the OECD/DAC's good practice papers. This memorandum will request that other USAID Bureaus respect such principles when they work directly with AFR Missions.

- AFR/DP/POSE will seek to establish a dialogue with PPC and other USAID Bureaus with the aim of updating USAID programming guidelines to reflect some of the suggestions found in the OECD/DAC good practice papers. We request your assistance in identifying particular programming guidelines that constrain your ability to implement the most useful elements of the harmonization agenda.

Your point of contact is AFR/DP/POSE Brian Frantz (712-5219, bfrantz@usaid.gov) should you wish to share examples of your harmonization efforts, identify USAID programming guidelines that impede productive harmonization efforts, or have questions regarding this memorandum or harmonization issues more generally.

Attachment:

OECD/DAC, 2003, "Harmonising Donor Practices for Effective Aid Delivery," Paris: OECD.

CLEARANCE PAGE FOR INFORMATION MEMORANDUM regarding Harmonization of Donor Procedures

Clearances:

AA/AFR:HChallenor	info	Date: 09/02/03
AFR/DP/POSE:SGiddings	OK	Date: 08/28/03_____
AFR/DP:JSmith		Date:
AFR/SD:LTaylor (WWarren for)	OK	Date: 09/03/03
GC/AFR:MAKleinjan		Date:
DAA/AFR:TWoods_____		Date:_____
DAA/AFR:KBrown_____		Date:_____

Drafted:AFR/DP/POSE:BFrantz:712-5219:09/02/03

cc: AFR/EA, Steven Wisecarver
AFR/SA, Patrick Fleuret
AFR/WA, Carol Grigsby

Sector-wide Approaches and Civil Society

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Sector-wide Approaches and Civil Society

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Introduction

This paper discusses the analytical framework for assessing civil society's roles and impacts on sector-wide approaches (SWAps). It then reviews some data from U.S. Agency for International Development (USAID) field missions that are participating in SWAps. Analysis of these data suggest that participation of civil society is beneficial and can and should be enhanced. Host country expectations that all sector activities are to be carried out by government, and that all funds will flow through a basket financing mechanism into the host country government's budget presents a major obstacle to increased participation of civil society in SWAps, however.

Analytical Framework

Based on the general literature on SWAps, three general phases were identified at which civil society can participate:

- design
- implementation
- monitoring and evaluation (M&E).

Civil society participation in the **design** of SWAps includes advocacy for or consultation with particular components or target groups even prior to a formal design process, membership in public sector-donor-civil society intensive planning groups or teams, consultation and/or advocacy based on the formal plan.

[1] The analysis presented herein is that of the author and does not constitute an official position of the U.S. Agency for International Development..

Involvement during the **implementation** phase generally takes two forms. The first is participation in a consultative or steering forum that guides implementation. The second is execution of activities (for example, provision of health services or agricultural extension services) that are part of the SWAp plan.

Civil society **monitoring and evaluation** efforts in SWAps can be independent assessments performed by civil society groups, assessments of donor programs that are parts of SWAps, information provision during M&E and/or consultation on the results of M&E.

These activities are illustrative of the roles civil society can play, and derive from experience with participation in SWAps as well as other development mechanisms.

USAID Field Mission Data

Using the analytical framework outlined above, questionnaires were sent to USAID field missions that were identified at headquarters as participants in SWAps in their respective host countries. A list of these SWAps is included as an annex. Headquarters identified 19 SWAps in which USAID is a participant via its resident field missions. Twelve were in the health sector, four in the education sector and three in the agriculture sector. A questionnaire was e-mailed to USAID contact personnel for each of the 19 SWAps. Twelve responses were received: 6 in health, 3 in education and 3 in agriculture. In two of the 12 cases, the author interviewed the contact person using the questionnaire as a guide. All other responses were typewritten and transmitted by e-mail from the field mission contact person.

The working definition for a SWAp that was used in the questionnaire was that it is a strategy in which all significant funding for the sector supports a single sector policy and expenditure program, under government leadership, adopting common approaches across the sector. A SWAp is SOMETIMES funded with budget support, but that is not the defining variable. SWAps are often funded by individual donor mechanisms and host country revenues using separate instruments within a common framework.

Of the 12 field missions responding, 75 per cent, or nine (4 health, 2 education and 3 agriculture), reported that civil society had a role during the design phase of the SWAp in which USAID was participating. Sixty-seven per cent, or eight (4 health, 2 education and 3 agriculture), reported that civil society was involved in implementation, and 58 per cent, or seven (2 health, 3 education and 2 agriculture), reported civil society participation in the M&E phase. A

number of the respondents indicated that the SWAp was relatively recent and had not yet reached the M&E phase, which may account for the lower rate of participation. Two indicated that civil society had only recently become involved in implementation, in one instance because implementation had only recently started, so all partners were new to implementation.

The sample size for this survey is small, and thus the results must be interpreted with caution. Given that the SWAps included cover several sectors, and there was no significant difference among the sectors, civil society participation during all phases appears eminently feasible.

Civil Society Roles in SWAps

Design

At the design stage, the data indicate that civil society largely plays an advocacy role. Occasionally, it also plays an instrumental role as a full partner in the design. Examples from the responses illustrate these roles.

Cambodia Sector-Wide Management (SWiM) – Health: MEDICAM is the umbrella coordinating body which represents all the NGOs [both international, national, community-based organizations, including UN agencies and bilateral agencies as observers] in the sector. It is a membership-based organization. In the design phase of the MoH's sector strategy, which is currently underway, MEDICAM sits on the policy dialogue and consultative meetings. Many of the NGOs are represented in the technical working groups such as Service Delivery Working Group, Private Sector Working Group, Quality Improvement Working Group, Institutional Development Working Group etc.

Mali PRODESS - Health:

- Groupe Pivot/Health Population, a consortium of all PVOs/NGOs working in health in Mali, advocated for increased civil society's role in health policy development and strategy implementation.
- FENASCOM (National Federation of CSCOM/community health centers) - represented interests of community centers.

Pan Caribbean Partnership Against HIV/AIDS – Health: Organizations such as People Living with HIV/AIDS and CNC participated in the design. All civil society organizations participating at the design stage were advocacy groups.

Mali Education Sector Investment Program (ESEP/PISE) – Education: Signed in September 2001, ESEP is the sector wide approach to implement the Ten Year Educational Development Program (PRODEC) that was designed through a participatory process including all education stakeholders (communities, local Non Governmental Organizations and Private Voluntary Organizations mainly American). Their input was provided mainly through workshops and focus groups.

Uganda – Education: The Forum for Education NGOs in Uganda (FENU) represented civil society and was consulted during the design of the SWAp.

Zambia Agriculture Sector Investment Program (ASIP) - Agriculture: Yes, mainly the Zambia National Farmers Union (ZNFU) [were involved in the design]. The ZNFU co-chaired, with government, the steering committee for the design of ASIP.

Mozambique Agricultural Sector Development Program (PROAGRI):

- Who: International and national NGOs, especially those already implementing donor funded agricultural sector activities; the university; and private sector companies to a lesser degree.

- How: Civil society was involved mainly through consultations, rather than direct participating in the design. Donors particularly ensured that NGO input was included in the design. The final design incorporates a significant continuing implementation role for NGOs.

Bolivia Sistema Boliviana de Tecnologia Agropecuaria (SIBTA) – Agriculture: SIBTA is a sector-wide approach to improving agriculture in Bolivia. It resulted from a confluence of opinion among those of the donor community, the Government of Bolivia and the private sector. That confluence of opinion recognized that the mechanisms for assisting farmers and supporting agricultural development was not working. The creation of SIBTA was a three-way participation among the GOB, the donors and the private sector. It involved four foundations, based on macro-ecological regions of Bolivia...These foundations were established as private entities with a peculiar twist. Their Boards of Directors are comprised of a combination of private (60%) and public (40%) sector representatives. . . . The second peculiarity is that these private foundations are authorized to manage public funds.

Implementation

In respect to implementation, the responses from USAID's field missions showed that civil society plays two roles: advocacy and operations.

Zambia – Health: At the national level, the civil society partner with the most institutionalized and visible role is a local NGO, the Churches Health Association of Zambia. This umbrella organization provides a significant proportion of the health services in the rural areas through their member institutions. They receive government funds and staff and participate thoroughly in health sector planning and decision making. Also at the national level, a variety of professional organizations sit on technical and policy committees of the Ministry of Health. There is also involvement of other non-governmental partners on an informal basis.

The Health Reform decentralization process has led to more success in involving civil society at the sub-national levels. For example, District and Hospital Boards are bodies that are specifically designed to include civil society representation. The vision is that the Boards make major decisions for those health facilities they cover: contract staff, set budget, etc. Constituting and empowering these Boards has been happening over time, but has not been fully implemented at this point.

Cambodia SWiM - Health: Most of the NGOs in the sector implement program activities in accordance with the MoH's sector strategy such as the implementation of the Minimum Package of Activities (MPA) at the Health Center level in consultation and with the concurrence of MoH. All USAID supported NGOs/CAs implement within the framework of the MoH's strategy to improve availability and access and increase utilization of essential health services at the community level.

Ethiopia Education Sector Development Program (ESDP): The GFDRE says it involves local community participation. However, in the SDP Program Implementation Manual, Chapter 6 (Community Participation) is a directive like discussion of how the community can physically support "their" local school or health center. That was 4 years ago. The government is currently developing a phase II for each of the social sector Sector Development Programs. Here they have explicitly placed a representative NGO on the Central Steering Committee, together with the Banks, representative bilateral donors, UN Group representation, and the EU, and chaired by the Minister of Health or Education, depending on the program.

Mali ESEP – Education. How it's supposed to work: civil society is represented in local stakeholders' bodies at the commune, circumscription and regional levels known as the Communal, Circumscription and Regional Advisory Commissions (Conseil Communal de Concertation, Consell de Cercle de Concertation and Conseil Regional de Concertation). They are responsible for the implementation of education action planning and monitoring at all these different levels.
How it's working: at the present the Consell de Concertations are not really operational in terms of action planning within the ESEP. . . . (I)n our new strategy USAID anticipates giving some capacity building support to assist them in carrying out this function.

Mozambique PROAGRI:

- Who: same group as for the design.
- How: (1) policy formulation – private sector groups are explicitly brought into the policy formulation process through various forums.

(2) planning – NGOs, producer associations, and individual farmers and companies are brought into ministry planning activities at the district and provincial levels.

(3) activity implementation – many ministry activities are implemented jointly with NGOs at the field level.

(4) outsourcing – government is starting to contract out various activities for NGOs to implement entirely.

Zambia ASIP: The ZNFU and the Program Against Malnutrition (PAM) were somewhat involved in implementation. The Seed Multiplication Component of ASIP was implemented mainly by civil society groups such as PAM. However, the perception of most stakeholders is that civil society involvement in the initial years of ASIP was minimal, and that the program was overwhelmingly public sector driven. Following the Mid Term Review (MTR) of ASIP in June 1998, it was resolved that Civil Society needed to be more involved in its implementation. Accordingly, the Agricultural Consultative Forum (ACF) was formed, supported financially by the Dutch Embassy, the Norwegian Embassy and USAID, to facilitate wider stakeholder involvement in policy regarding implementation of activities.

Bolivia SIBTA: The donor community, including USAID, has supported the development of this model by pooling and focusing their resources into the common channel of the SIBTA model and supporting the development of PITAs (Proyecto de Inovacion de Tecnologia Agricola). These projects have as their focus, assisting farmers to adopt appropriate agricultural technologies that will increase their income. These projects result from a competitive process whereby the community of agriculturally related organizations can submit ideas (profiles) that they think will significantly improve the functionality and profitability of some commodity chain. These profiles are evaluated in a transparent and competitive process whereby the most attractive are selected for funding. These selected profiles are developed into projects and put out for bid for appropriate companies to compete to win the execution of the project. The funding of the project comes from either the pooled resources of the donors or from specific funding from one of them. Critical to this process is the requirement that the beneficiaries - who generated the winning profile in the first place - are required to pay to the foundation a minimum of 15 percent of the value of the project.

Monitoring and Evaluation

As noted earlier, many of the SWAps are relatively new, and thus have not reached the M&E phase. The roles that appear to be emerging for civil society in M&E are advocacy, serving as information sources (based on organizations' operational role in implementation), independent assessors and reviewers of joint monitoring or evaluation reports. For USAID, civil society partners are often fully engaged in the M&E of USAID-financed activities within the larger frame of the SWAp.

Mali PRODESS:

- Groupe Pivot participates as a representative of civil society/NGOs in PRODESS ("donor") working group and PRODESS comité de suivi (monitoring)
- FENASCOM services as "deputy" of the PRODESS Monitoring Committee.

Pan Caribbean Partnership Against HIV/AIDS: Civil society groups have been involved in the development of annual work plans and in the specification of indicators for performance measurement.

Cambodia SWiM: For USAID supported activities, all our Partners were involved in the development of the Performance Monitoring Plan (PMP) and our Evaluation and Monitoring Adviser takes the lead role in the M&E activities. In addition to using the results for our USAID annual reporting purposes, MoH and other players in the sector are informed of our Partners performance periodically in different forum.

Ethiopia ESDP: There is a Joint Review Mission each year that is staged by the government and donors. This feeds into an Annual Review Meeting – typically about 3 days duration, at which the NGO community is invited to attend. The Joint Review Missions track specific key components, with a different focus each year. The Mission also compiles information on a series of indicators that were agreed to at the outset of the SDPs.

Mali ESEP: **Six months after the official launch of ESEP, the first joint ESEP Monitoring Mission (Ministry of Education along with donors and Civil Society participants) occurred March 4-22, 2002. The progress made in the implementation of the ESEP is slow but moving in the right direction. Results are limited as it is just getting off the ground at the local, regional and national level. In terms of community involvement, local NGOs and parent association (APEs) were consulted during the M&E mission.**

UGANDA Education: FENU has been at the table at the monthly meeting of the Education Funding Agencies Group.

Zambia ASIP: Initially civil society involvement in monitoring or evaluation was deemed weak but this was strengthened through the ACF creation in 1998.

Mozambique PROAGRI: Civil society is contacted at several points in the ministry's M&E system. Civil society also participates in the large formal review meetings held twice a year, though this participation is still somewhat limited.

The field data clearly show that there is room for civil society participation in SWAps and that civil society is taking on a number of different roles. The descriptions suggest that there are opportunities in each phase of a SWAp to encourage the involvement of civil society, and that there is flexibility in roles to adapt to differences among SWAps. We can already derive many of the capacity development requirements by studying these roles. However, since many SWAps are relatively recent, there is little definitive information regarding the quality of SWAps with and without civil society, or of the relative effectiveness of SWAps with and without. These will be useful variables to include in future M&E efforts.

Reasons for Including Civil Society in SWAps

Despite the fact that it is too soon to assess the impact of many SWAps, or civil society's participation in them, the questionnaire did ask respondents to offer their observations on the impacts of civil society on the SWAp to date. Three reasons for involving civil society can be hypothesized from these anecdotal observations:

- Involving civil society improves the accountability of both host government and donors at all phases of SWAps. This, in turn, enlarges the number of stakeholders in the SWAp and enhances the probability of successfully achieving the intended results of the SWAp.

- Civil society has a substantial share in the implementation of SWAps. Non-governmental organizations and private firms are major suppliers of services. Failure to recognize or include these operations within the frame of the SWAp begs the question of whether a SWAp is truly sector-wide.

- If civil society has an active – and preferably independent – role in monitoring and evaluation, accountability should be greatly strengthened. Such a role for civil society would also build a sustainable relationship between state and non-state actors in a country that would endure beyond the country's graduation from donor assistance. At present, this critical role remains underdeveloped.

The responses from the questionnaires that provide the foundation for these hypotheses are presented below.

> Mali PRODESS: Groupe Pivot's advocacy resulted in certain recommendations being accepted in the PRODESS, e.g., increased role of NGOs in CS and FP; contractualization arrangements (e.g., the one district/one NGO for HIV activity mentioned above, may expand into immunizations, etc.), increased health care coverage; and a written guideline on NGO/MOH partnership (latter not particularly useful - yet?. . .).
>
> Cambodia SWiM: Given the weak capacity of the public sector to meet the demands for basic health services at the community level, NGOs will continue to be an important partner of the public sector in the foreseeable future in Cambodia.
>
> The participation of NGOs in the sector improved coverage, especially in under-served population and hard to reach remote areas of the country.

The Ministry has gained a better understanding of the NGOs role in the sector and how the NGOs participation lends itself with a cohesive mix of public-private partnership.

The on-going health sector reform and the long-term sector strategy development are the results of the active engagement of the NGOs in the sector.

Zambia Health: Another area in which civil society is directly involved in the SWAp is through Neighborhood Health Committees. These volunteer community groups are charged with working closely with their local health facility and its staff to oversee operations, work together to identify local health priorities, and have input into decisions on how to spend any income generated by health facility fees.

Pan Caribbean Partnership Against HIV/AIDS: Inclusion of the advocacy groups during the design resulted in a design that took account of the needs of people already infected, as well as of the prevention aspect.

Ethiopia ESDP: There has been little to no impact to date [of the] overall [SWAp]. However, in those communities where our own Community-Government Partnership program was active there was change. For example, you have girls support committees being established to be sure girls continue their schooling, to discourage "abduction for marriage", to establish teacher codes of ethics in specific schools. Now you see communities going to the local administration demanding their involvement when teachers are not performing, and requesting "their share" of the supplies to be provided through the local education offices.

Uganda Education: The involvement of FENU in the SWAp design resulted in non-formal education programs being recognized in policy, in the strategic plan, and in services provided by the NGOs.

Zambia ASIP: Following the mid term review that led to increased civil society involvement in ASIP implementation, priorities and targeting of development interventions became more stakeholder driven. Perceptions and attitude of the public sector towards the civil society improved in the direction of more engagement in a spirit of development partnership. On the other hand, civil society now sees more transparency and feels increased ownership of policy measures. In preparation of the follow-up program to ASIP, the Agricultural Commercial Program (ACP), many stakeholders feel there has been adequate collaboration with civil society.

Mozambique PROAGRI: The most significant result has been to broaden and strengthen the impact of the swap on the agricultural sector.

Bolivia SIBTA: The entire process ensures the participation of the government, the donor community, and the private sector in agricultural development. The structure of the system is a unique way to involve all three in a sector wide approach to agricultural development. The design process behind the development of project ensures broad-based participation of the civil society - or private sector - involved in agriculture. This civil society approach is open to the entire community to develop ideas that become projects. The requirement of the 15 percent

payment ensures the "buy-in" of the private sector to the process. The use of public funds ensures the attention and participation of the Government of Bolivia. The commitment of the donor community provides a focused system whereby donor resources work together toward common goals.

. . .There are now seven PITAs in execution, and others in development. In addition, other non-PITA-funded interventions are underway, including SIMA (Servicio Informativo de Mercados Agropecuarios) that is now broadcasting, nation-wide, agricultural prices, by radio, on a daily basis.

Issues in Civil Society Involvement in SWAps

The question guide included an open-ended inquiry as to whether USAID support for civil society participation had been an issue for either the host government or the other donor partners. Two principal, interlinked, issues emerged from the field responses.

- Over half of the respondents indicated that the host governments interpreted a SWAp to mean that all funds should accrue to government, and all implementation responsibility should rest with government. This led to instances in which civil society was ignored, or, worse, actively discouraged from involvement. Most of those responses added, however, that the host government has changed its position toward civil society and is now including it.

- "Basket funding" denotes to host government and many of the donor partners that civil society activities, if they exist in the sector, are outside of the frame of the SWAp. In two instances, respondents indicated that "basket funding" either does not include civil society activity, or has caused the level of civil society activity in the sector to diminish. Although the reasons for this would have to be explored more carefully, on its face, it would appear that if the "basket" is within the government budget, by definition, non-state actors would be excluded from direct funding by external partners, and would be dependent upon host government's provision of a "window" for non-state actors.

The principle stated in the Overseas Development Institute's paper on "The Choice of Financial Instruments"[2] that "Government would define its own role in relation to the private and not for profit sectors, and, if there is a case for subsidising an activity carried out via these non-Government routes, the resources could be financed via the budget," must be nuanced in two ways. First, it is not clear whether the last phrase means registration in the budget, even if privately or donor

[2] Foster, Mick and Jennifer Leavy, Working Paper 158, London: ODI, October 2001, p. 5.

financed, or disbursed by government from its revenues. Second the principle may rest on sound economic reasoning, but an analysis of the political economy would suggest that private and not-for-profit actors that receive funds disbursed by government are unlikely to be able to play the role of Lavergne's "local constituencies"[3] with objectivity. USAID's experience confirms that some non-state actors are ideologically opposed to receiving money from the state for fear of co-optation. So, USAID does not envision an eventual situation in which all funds flow to the state budget for disbursement to private actors.

For some host governments and partners, there is a view that all services should be provided by the state, and therefore, all funds must be within the government budget. This is likely to have a negative impact on both quantity and quality of service delivery in some core sectors. There appears to be some variation among the sectors on this point, with the agricultural sector SWAps being more open to the inclusion of both private enterprise and non-profit NGOs as full partners in SWAps. This would have to be verified in further review, however.

Some of the field comments on these issues include:

> Ghana Health: The 'common basket' does not fund civil society organizations. These are funded separately by other donors, often following the commonly set priorities from the plan of work of the MoH and partners.
>
> Civil society hardly participates in the SWAp discussions. Although dentists and nurses professional organizations etc. are represented, they are hardly visible (audible) in the discussions. The MOH plan of work does not really integrate civil society.
>
> MoH would have a preference for channeling all funds through the common basket, but allows donors to fund civil society directly.
>
> Since recently, all donors are required to report all their health sector expenditure to the MoH, to get a realistic picture of what is funded in the entire health sector.
>
> Ethiopia Health Sector Development Program (HSDP): The first phase of HSDP is completed in this year and NGOs were not included. There is an attempt to consider the NGOs' activities in the Second Phase of HSDP. In the Second Phase of HSDP, which is under process, the NGOs are represented in the Central Joint Steering Committee (CSJC) for the HSDP through their umbrella organization called CRDA. The CJSC is the highest governance body for the HSDP.

[3] Lavergne, Real, "Results-Based Management and Accountability for Enhanced Aid Effectiveness." Ottawa:CIDA, May 2002, p. 13.

The host government wants all financial resources for the SWAp to flow through the government budget. However, the majority of the donors that support the HSDP do not channel their resources through the government budget. . . .Some partners do not yet consider the activities of the civil society as part of the HSDP. However, the role of the NGOs is increasing and getting recognition.

a) Mali PRODESS: Yes - neither the GRM/MOH nor other donors want to see civil society doing direct implementation, rather to assume a facilitative role (USAID/Mali agrees)
b) No, MOH doesn't necessarily expect all financial resources for the SWAp to flow through the govt. budget, at least not at the highest level. But GRM mechanisms do not adapt – have not yet adapted to taking into account other-than-flow-through government budget support.
c) No, all think civil society has a very important role to play. Environment here is at least at the moment very favorable for increasing civil society participation.

Zambia Health Many officials in the Ministry of Health tend to view the SWAp as synonymous with pooled funding arrangements. USAID does contribute a relatively small portion of our overall funding for the sector to a common "basket" which supports health services at the district level and below. However, a number of other donors, notably the northern European countries, are increasingly putting the bulk of their contributions through the basket. There is significant pressure on USAID to move away from "projects" and towards "a full SWAp", e.g. full participation in basket funding". That being said, other donors do also fund NGOs and other activities outside the government sector, but in an increasingly limited way.

Ethiopia ESDP: The GFDRE would prefer all funding to flow through the treasury. However, their systems, while robust, are not timely enough or capable of tracking specific funds. Also, the government is currently in the throes of a major overhaul of their planning, budgeting, and accounting systems (with USAID help via Harvard University). This will enable the government to proceed with their plans to provide block grants down to the district level (comprehensive grants including recurrent and capitol budgets) where priority decisions for funding will be made. There is significant movement recently by the government to involve local community participation, although it is not clear whether this means simply taxing communities through in-kind support for education, health, etc. the government has however, requested that USAID conduct a thorough evaluation of our Community School-Grants Program, to glean recommendations to better involve communities in the running of their schools.

Mali ESEP: USAID Mali support for civil society through monies channeled to American PVOs has been an issue for the Ministry of Education. The Ministry of Education would prefer USAID financial assistance to go directly to the Ministry and its deconcentrated structures (Regional Education Offices). Recently there has been a better understanding on the part of the ministry as to why USAID is providing funds to PVOs to implement actions that are within the scope of ESEP and are complimentary to actions planned/taken by the ministry.

Among some donor partners there has been the question of whether financing through our PVO partners should be considered as part of SWAp financing, though the government sides with USAID on this.

Zambia ASIP: Initially, the host government wanted all the resources channeled through its budget (Basket Funding). However, following resistance to this mode of funding by the majority of bilateral donors, including USAID, government now accepts support to various areas of the agricultural sector through direct arrangements with civil society.

Mozambique PROAGRI: Both government and other donors appreciate the different and complementary roles played by civil society and government. The partnership between government, donors and the civil society was somewhat weak at first (preached by not practiced), but it seems to be steadily strengthening.

Conclusion

Civil society involvement enriches SWAps and has the potential to significantly improve accountability and the successful achievement of results. Based on the information provided by USAID's field mission personnel directing programs that are included in country SWAps, models are emerging for civil society participation. These models can be adapted to the particulars of each SWAp. They include roles at design, implementation and M&E phases of SWAps.

The specific sector of the SWAp may influence some of the partners' receptivity to civil society involvement, but all sectors appear to have the potential for inclusion of civil society. Further work must be done to assess the promise of civil society to increase accountability and effectiveness of SWAps. However, civil society needs support in order to participate in SWAps. Without support to develop necessary capacities, and to defray the costs of participation, civil society pays what Charles Okeahalam referred to as an imputed tax.[4] Civil society is weakened as a partner in this circumstance. So, it is not enough to define ownership as including all actors. All actors must be supported – USAID says directly - to participate in program-based approaches.

Partners should carefully review expectations of the role of state and non-state actors, and how those expectations may be influenced by the use of the "basket" funding mechanism. USAID would be interested in collaborating with other partners in a more in-depth and systematic review at country level of the question of civil society inclusion in program-based approaches.

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[4] Okeahalam, Charles. "Institutional Capacity and Public Financial Management in East and Southern Africa." Presented at the CIDA-sponsored Forum on Accountability and Risk Management under Program-Based Approaches, Ottawa, June 19-21, 2002.

Annex A

Countries with Sector-Wide Approaches in which USAID Participates

Health

Bangladesh
Cambodia
Caribbean Regional
Ethiopia
Ghana
Mali
Mozambique
Nicaragua
Senegal
Tanzania
Uganda
Zambia

Education

Ethiopia
Mali
Senegal
Uganda

Agriculture

Bolivia
Malawi
Mozambique
Zambia

Annex B

Question Guide
Civil Society in SWAps

Definitions:

Civil society – all non-state actors, whether groups or individuals, for- or non-profit.

SWAps - sector-wide approach) is a strategy in which all significant funding for the sector supports a single sector policy and expenditure program, under government leadership, adopting common approaches across the sector. A SWAp is SOMETIMES funded with budget support, but that is not the defining variable. SWAps are often funded by individual donor mechanisms and host country revenues using separate instruments within a common framework.

QUESTIONS:

1. What is the name/title used in the country for the SWAp?

2. Were civil society organizations/individuals involved in SWAp

   Design? Yes___ No___ Who were they and how were they involved (if yes)?

   Implementation? Y____ N_____ Who were they and how were they involved (if yes)?

   Monitoring and evaluating progress and results? Y____ N____ Who were they and how were they involved (if yes)?

3. Did USAID support civil society participation in the SWAp? How? (e.g., through existing pre-positioned financial support, through new grant or other mechanism, through TA or training, or through support to the host government to finance the participation of civil society, or TA to the government to effectively work with civil society, or by direct consultation between civil society and donors to the SWAp).

4. What, if any, was the impact (or is the anticipated impact) of civil society participation in the SWAp? (e.g. did the priorities or focus change; is there better coverage? is there more support for necessary reform measures than would otherwise be the case?)

5. Is USAID support for civil society participation an issue for either the host government or the other donor partners? For example, does the host government expect all financial resources for the SWAp to flow through the government budget? Do other donor partners discount implementation of some of the program by civil society as an actual part of the SWAp?

NEPAD Commentary: The First Wave

Review of:

Rachel Hayman, Kenneth King and Simon McGrath (eds.). *The New Partnership for Africa's Development (NEPAD): Internal and External Visions.* Centre for African Studies, University of Edinburgh. 2003.

Holger Bernt Hansen and Maj-Britt Johanssen (eds.). *The Challenge of the New Partnership for Africa's Development, NEPAD.* University of Copenhagen, North/South Priority Research Area. 2003.

Nepad was officially launched in October 2001. Commentary was initially slow in coming, but soon turned into a flood in 2002, unabated in 2003. An independent website maintained by the Southern African Regional Poverty Network (SARPN), http://www.sarpn.org.za/nepadall.php, now lists more than a hundred items related to Nepad. The two publications reviewed here bring together papers presented at conferences held in 2002, but published in 2003.

The papers in these collections reflect the tempo, and the temper, of the wide range of discussions so far. There are the "new dawn" statements of African politicians in the forefront of the Nepad process; the forced enthusiastic welcome from aid bureaucrats—weary and wary of new initiatives, but going with the current flow; the attacks of those analysts associated with earlier African initiatives which did not meet with the same positive donor reactions; relatedly, the critiques of scholars who see Nepad as a neo-liberal Trojan Horse; and complaints from civil society about lack of consultation in developing the initial document. Every now and then, however, in these volumes and in the general discourse, there are papers that do not see Nepad as a morality play set against grand themes, but as having the potential for small, concrete, improvements in the lives of Africans.

It is my view, from reading these papers and from reading the general debate, that both the proponents and the opponents of Nepad are arguing on too grand a scale. The proponents are in danger of taking too much on; and the opponents are in danger of losing a good opportunity to do some small things right, in the process of opposing the grand schemes of the proposers in equally grand terms.

So what is new about Nepad? Certainly not the debate on the "Washington Consensus". This debate will go on, and in any case, the Lagos Plan of Action (LPA) of the 1980's put as much emphasis on the role of a well regulated private sector as the Nepad documents do on the role of a well functioning government (which is to say, quiet a lot). And yet much of the debate centers on these sorts of issues, and many of the papers here and elsewhere rehash arguments and counterarguments that we are all now familiar with.

To my mind what is different about Nepad is two-fold. First, it is self consciously democratic in its roots and aspirations. Say what you will about the economic content of Nepad versus the LPA. The fact of the matter is that the Heads of State who initiated the Nepad process in 2000 were predominantly elected by their populations. The same cannot be said, not by a long shot, of those who were Heads of State when the LPA was launched in the early 1980's. Say what you will about the lack of consultation with civil society in the development of Nepad, and this criticism is indeed justified. But there was even less consultation on the LPA, and the flood of free speech and commentary from civil society in many countries in the last two years on Nepad is remarkable—a far cry from the dictatorial 1980's in these same countries.

Second, and related to the above, is the growing need in this globalizing world to have a strong and credible Africa-wide voice, a voice that draws its legitimacy and authority from being rooted in democratic principles. There are two directions in which this voice needs to speak---internally, to African nations, and externally, to the court of world opinion. Internally, there is a need to show the way, and to persuade and if necessary to sanction, African nations who stray from democracy and basic human rights, and this can best be done by other African nations, through an organization that is founded on these principles. Externally, Africa needs a voice to make alliances with those in the North who have Africa's interests at heart—on debt relief, on pharmaceutical prices, on international financial architecture. But the days when generals in uniforms could make these claims on behalf of Africa are gone. Africa's voice to the external world has to have a legitimacy born of democracy and human rights.

The above argument suggests a fairly narrow focus for Nepad as an institution—a mechanism for peer review on governance and rule of law, and a mechanism for representing Africa on key global issues. But the proponents of Nepad are expanding beyond these parameters of Nepad's comparative advantage. All sorts of national and sectoral economic policies, from exchange rates through investment codes to computers in schools, are now seen to be in Nepad's purview. In the international arena, Nepad seems to have taken on the task of increasing capital flows to Africa. Not surprisingly, critics are responding in the same broad sweep, and turning the discussion into a debate on development strategy, the colonial legacy, the need for a new international economic order, and so on. The donors, for their part, are also seen as revealing their true colors. Even before the "peer review mechanism" had been designed, they were setting out a litmus test on how Nepad would address the Mugabe issue in Zimbabwe, raising fears that Nepad would become conditionality by another name.

It is perhaps not surprising that the first wave of commentary on Nepad was as widespread in coverage as it turned out to be. Nepad's continued tendency to widen rather than narrow its remit does not hold out hope that the debate will narrow down to specifics. But if this tendency was indeed reversed, if Nepad settled down to using its moral authority in devising a regional peer review mechanism on governance, difficult as that will be to agree on, and to honing a small number of global-African issues to bring to the attention of the world, I believe it could make a contribution to African development.

This will require a toning down of expectations and rhetoric, on the part of the proponents and opponents of Nepad. The debates, specific ones on economic policy and general ones on the colonial legacy and the current world order, will go on at their own pace and rhythm. But a number of concrete achievements can be had with greater focus on Nepad's special strengths, and those achievements are surely worth striving for.

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THE NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT (NEPAD)

THE AFRICAN PEER REVIEW MECHANISM (APRM)

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1. The African Peer Review Mechanism (APRM) is an instrument voluntarily acceded to by Member States of the African Union as an African self–monitoring mechanism.

Mandate of the APRM

2. The mandate of the African Peer Review Mechanism is to ensure that the policies and practices of participating states conform to the agreed political, economic and corporate governance values, codes and standards contained in the Declaration on Democracy, Political, Economic and Corporate Governance. The APRM is the mutually agreed instrument for self-monitoring by the participating member governments.

Purpose of the APRM

3. The primary purpose of the APRM is to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental economic integration through sharing of experiences and reinforcement of successful and best practice, including identifying deficiencies and assessing the needs for capacity building.

Principles of the APRM

4. Every review exercise carried out under the authority of the Mechanism must be technically competent, credible and free of political manipulation. These stipulations together constitute the core guiding principles of the Mechanism.

Participation in the African Peer Review Process

5. Participation in the process will be open to all member states of the African Union. After adoption of the Declaration on Democracy, Political, Economic and Corporate Governance by the African Union, countries wishing to participate in the APRM will notify the Chairman of the NEPAD Heads of State and Government Implementation Committee. This will entail an undertaking to submit to periodic peer reviews, as well as to facilitate such reviews, and be guided by agreed parameters for good political governance and good economic and corporate governance.

Leadership and Management Structure

6. It is proposed that the operations of the APRM be directed and managed by a Panel of between 5 and 7 Eminent Persons. The members of the Panel must be Africans who have distinguished themselves in careers that are considered relevant to the work of the APRM. In addition, members of the Panel must be persons of high moral stature and demonstrated commitment to the ideals of Pan Africanism.

7. Candidates for appointment to the Panel will be nominated by participating countries, shortlisted by a Committee of Ministers and appointed by Heads of State and Government of the participating countries. In addition to the criteria referred to above, the Heads of State and Government will ensure that the Panel has expertise in the areas of political governance, macro-economic management, public financial management and corporate governance. The composition of the Panel will also reflect broad regional balance, gender equity and cultural diversity.

8. Members of the Panel will serve for up to 4 years and will retire by rotation.

9. One of the members of the Panel will be appointed Chairman by the Heads of State and Government of participating countries. The Chairperson will serve for a maximum period of 5 years. The criteria for appointment to the position of Chairperson will be the same as for other members of the Panel, except that the candidate will be a person with a proven leadership record in one of the following areas; Government, public administration, development and private sector.

10. The Panel will exercise the oversight function over the review process, in particular to ensure the integrity of the process. Its mission and duties will be outlined in a Charter, which will also spell out reporting arrangements to the Heads of State and Government of participating countries. The Charter will secure the independence, objectivity and integrity of the Panel.

11. The Secretariat may engage, with the approval of the Panel, the services of African experts and institutions that it considers competent and appropriate to act as its agents in the peer review process.

12. The Panel will be supported by a competent Secretariat that has both the technical capacity to undertake the analytical work that underpins the peer review process and also conforms to the principles of the APRM. The functions of the Secretariat will include; maintaining extensive database information on political and economic developments in all participating countries, preparation of background documents for the Peer Review Teams, proposing performance indicators and tracking performance of individual countries.

Periodicity and Types of Peer Review

13. At the point of formally acceding to the peer review process, each State should clearly define a time-bound Programme of Action for implementing the

Declaration on Democracy, Political, Economic and Corporate Governance, including periodic reviews.

14. There will be four types of reviews:
    - The first country review is the base review that is carried out within eighteen months of a country becoming a member of the APRM process;
    - Then there is a periodic review that takes place every two to four years;
    - In addition to these, a member country can, for its own reasons, ask for a review that is not part of the periodically mandated reviews; and
    - Early signs of impending political or economic crisis in a member country would also be sufficient cause for instituting a review. Such a review can be called for by participating Heads of State and Government in a spirit of helpfulness to the Government concerned.

APRM Process

15. The process will entail periodic reviews of the policies and practices of participating states to ascertain progress being made towards achieving mutually agreed goals and compliance with agreed political, economic and corporate governance values, codes and standards as outlined in the Declaration on Democracy, Political, Economic and Corporate Governance.

16. The peer review process will spur countries to consider seriously the impact of domestic policies, not only on internal political stability and economic growth, but also on neighboring countries. It will promote mutual accountability, as well as compliance with best practice.

17. Bearing in mind that African countries are at different levels of development, on joining the Mechanism, a country will be assessed (the base review) and a timetable (Programme of Action) for effecting progress towards achieving the agreed standards and goals must be drawn up by the state in question, taking into account the particular circumstances of that state.

Stages of the Peer Review Process

18. **Stage One** will involve a study of the political, economic and corporate governance and development environment in the country to be reviewed, based principally on up-to-date background documentation prepared by the APRM Secretariat and material provided by national, sub-regional, regional and international institutions.

19. In **Stage Two,** the Review Team will visit the country concerned where its priority order of business will be to carry out the widest possible range of consultations with the Government, officials, political parties, parliamentarians and representatives of civil society organizations (including the media, academia, trade unions, business, professional bodies).

20. **Stage Three** is the preparation of the Team's report. The report is prepared on the basis of the briefing material prepared by the APRM Secretariat and the information provided in-country by official and unofficial sources during the wide-ranging consultations and interactions with all stakeholders. The report must be measured against the applicable political, economic and corporate governance commitments made and the Programme of Action.

21. The Team's draft report is first discussed with the Government concerned. Those discussions will be designed to ensure the accuracy of the information and to provide the Government with an opportunity both to react to the Team's findings and to put forward its own views on how the identified shortcomings may be addressed. These responses of the Government will be appended to the Team's report.

22. The Team's report will need to be clear on a number of points in instances where problems are identified. Is there the will on the part of the Government to take the necessary decisions and measures to put right what is identified to be amiss? What resources are necessary to take corrective measures? How much of these can the Government itself provide and how much is to come from external sources? Given the necessary resources, how long will the process of rectification take?

23. The **Fourth Stage** begins when the Team's report is submitted to the participating Heads of State and Government through the APRM Secretariat. The consideration and adoption of the final report by the participating Heads of State and Government, including their decision in this regard, marks the end of this stage.

24. If the Government of the country in question shows a demonstrable will to rectify the identified shortcomings, then it will be incumbent upon participating Governments to provide what assistance they can, as well as to urge donor governments and agencies also to come to the assistance of the country reviewed. However, if the necessary political will is not forthcoming from the Government, the participating states should first do everything practicable to engage it in constructive dialogue, offering in the process technical and other appropriate assistance. If dialogue proves unavailing, the participating Heads of State and Government may wish to put the Government on notice of their collective intention to proceed with appropriate measures by a given date. The interval should concentrate the mind of the Government and provide a further opportunity for addressing the identified shortcomings under a process of constructive dialogue. All considered, such measures should always be utilized as a last resort.

25. Six months after the report has been considered by the Heads of State and Government of the participating member countries, it should be formally and publicly tabled in key regional and sub-regional structures such as the Pan-African Parliament, the African Commission on Human and Peoples' Rights, the envisaged Peace and Security Council and the Economic, Social and Cultural Council (ECOSOCC) of the African Union. This constitutes the **Fifth and final stage** of the process.

Duration of the Peer Review

26. The duration of the review process per country should not be longer than six months, commencing on the date of the inception of Stage One up to the date the report is submitted for the consideration of the Heads of State and Government.

Funding of the Peer Review Mechanism

27. Funding for the Mechanism will come from assessed contributions from participating member states.

Review of the APRM

28. To enhance its dynamism, the Conference of the participating countries will review the APRM once every five years.

Results and Partnership: in Support of NEPAD

Submitted to the DAC as a USG Room Paper for the High Level Meeting
28 March, 2003

Introduction

The United States welcomes the New Partnership for Africa's Development (NEPAD) as a new framework for Africans to take charge of their own destiny, to work jointly with the donor community toward the realization of the Millennium Development Goals (MDG), and to forge a new relationship between the continent and the donor nations based on partnership and mutual accountability.

The United States supports the underlying principles of NEPAD:

(1) Fostering African ownership, leadership and responsibility for the economic and social development of the continent
(2) Developing a new partnership between African countries and bilateral and multilateral donors based on shared development goals, a shared agenda for development, and mutual accountability for results
(3) Increasing the effectiveness of donor assistance through improved donor collaboration, reducing the transaction costs of implementing assistance programs and placing greater responsibility on African implementers to achieve development results
(4) A focus on long-term, predictable partnerships accompanied by increased resource flows, particularly to countries that have a shared commitment to shared goals.

Mutual accountability for results requires us to act on research by David Dollar and others who have shown that aid is most effective when provided in the context of strong country policies. This means directing higher levels of resources to those countries that demonstrate a commitment to just and democratic governance, economic freedom, and investing in their own people by improving the quality and availability of educational opportunities and health care for all citizens. In the United States, President Bush took the lead in this effort by making a commitment at Monterrey in 2002 to increase U.S. assistance levels by almost 50%, to $15 billion per year by 2006. A Millennium Challenge Corporation (MCC) will be created to direct the increased resources to those countries that meet criteria based on the principles of improved governance, economic freedom and investment in people.

Understanding Mutual Accountability within the NEPAD Framework

The new relationship between African countries and their development partners essential to the success of NEPAD will hinge on both sides of the partnership being held

accountable for the achievement of results.[1] Both sides of the partnership, the donor community and its African partners, must dedicate themselves to working together to achieve real reductions in poverty and measurable results in fostering equitable economic and social development at the country level. It is, however, important for both the donors and their African partners to understand more precisely what this mutual accountability means in concrete terms. The responsibilities on the part of the donor community in assuring mutual accountability may in some respects be the same as those of its African partners, but in other respects the perspectives may differ.

There is convergence of opinion between the donors and their partners on many aspects of aid effectiveness. As World Bank and other research indicate, the effectiveness of aid and the achievement of results have less to do with the level or modality of development assistance, such as budget support vs. program or project support, but rather more to do with the strategic investment of assistance in countries with sound policies. Donors can promote aid effectiveness by focusing on the reduction of transaction costs for partner African countries through greater harmonization of donor practices and through increased use, where possible, of the operating policies, procedures and modalities of the host country institutions. Aid effectiveness is also supported by donor coordination on areas of assistance and working around a mutually agreed policy framework, such as a Poverty Reduction Strategy (PRS).

Country leadership in assuring mutual accountability for aid effectiveness is critical. If sound policies are essential, country leadership would revolve around a commitment to develop policy frameworks designed to achieve the goals contained in the Millennium Summit Declaration, and to make the sometimes difficult decisions necessary to implement those frameworks. It also implies a commitment to harness the resources -- public, private and other -- required to achieve the Millennium goals, to utilize these resources as efficiently and in as transparent a manner as possible, and to monitor the use of such resources through competent oversight institutions. It requires a commitment to the rule of law and to improved public governance.

Assessing Mutual Accountability within the NEPAD Framework

There are aspects of economic, social and political development that can be effectively assessed within the framework of existing organizations such as the OECD/DAC and the Economic Commission for Africa (ECA), including issues related to the effectiveness of development assistance. However, the ECA, working with the OECD/DAC Secretariat, has recently proposed creating a much more formalized new structure for mutual accountability called a "mechanism for mutual review development effectiveness" that was presented to and noted by the NEPAD Heads of State and Government Implementation Committee (HSGIC) at its meeting in Abuja on March 8, 2003. The HSGIC expressed appreciation for the proposal, and urged ECA and the OECD/DAC Secretariat to continue working on it. That same proposal is being submitted to the OECD/DAC High Level Meeting on April 22-23 for discussion.

[1] Development results are not to confused with process results

Under the ECA-OECD/DAC Secretariat proposal that was considered on March 8, 2003 by NEPAD, and will be discussed by the OECD/DAC HLM on April 22, a joint review of development effectiveness among African countries and Development Cooperation Ministers and Heads of Agencies would take place around regular high level meetings of the ECA "Big Table." and a proposed NEPAD "ODA Forum". These reviews would have broad scope and "would involve objective analysis of performance [by donors and recipients] based on an agreed set of commitments and indicators." As it relates to donors, the ECA-OECD/DAC Secretariat proposal, as well as the Communique from the Abuja NEPAD meeting, makes it clear that the indicators used to measure donor accountability should include progress on indicators related to "agricultural subsidies, effective tariff rates, debt stocks/reduction, and other indicators for Millennium Development Goal 8." The data and analysis required to measure progress on these indicators would be included in an annual "Report." While not explicitly stated, the proposal makes clear that such a report would be prepared by ECA and OECD/DAC Secretariat functionaries.

The creation of yet another formalized structure to assess mutual accountability is in several aspects redundant of work already being carried out by others. Furthermore, the establishment of another organ to relate complex issues such as trade, subsidies and prices to the concept of "mutual accountability" could unnecessarily complicate the work of existing mechanisms established to examine these questions. Finally, there are fora at the country level that are appropriate venues for serious discussion of other development issues, such as the role of the private sector in leading economic growth or the participation of civil society in development.

Specialized Fora

It is axiomatic that many complex factors influence development, from issues of economic and political policy, to market forces and to issues of program implementation and aid effectiveness. There is no one forum or institutional mechanism that can monitor and evaluate all aspects of the development process on a continuing basis. Rather, **different effectiveness topics are best dealt with in a variety of more specialized fora.**

For example, while issues of policy coherence are extremely important to the achievement of results, trade policy is best discussed in the context of the World Trade Organization (WTO). It was at the WTO's Doha Round last year that the U.S. proposed bold reforms for agricultural trade, including: phased elimination of export subsidies over five years, elimination of export monopolies of state trading enterprises, prohibition of most export taxes on agricultural products, reduction and simplification of agricultural tariffs, and limiting trade distorting support to 5% of the total value of agricultural production.

Similarly, issues relating to debt reduction and restructuring are best dealt with in multilateral institutions or the Paris and London Clubs. The U.S. fully supports the HIPC

process, and provided a significant contribution to the multilateral institutions to be used in support of debt relief for HIPC countries.

Mutual Accountability at the Country Level

Since the primary relationships between the donor community and Africa are at the country level, it is at this level that the notion of mutual accountability is best introduced and assessed. A mutually accountable relationship can most effectively be structured around the opportunity presented by the periodic Consultative Group (CG) meetings between African counties and their development partners or through joint reviews of the Poverty Reduction Strategies. Recent experience in Tanzania is a case in point. Substantive discussions regarding aid effectiveness and country ownership issues are taking place between the donor community and the host country in the context of a "Tanzania Assistance Strategy," (TAS) developed by the government to structure its on-going relationship with the aid donors as they converge around the Poverty Reduction Strategy. Over a five year period from 1997-2002 the donor community and the Government of Tanzania continued an on-going dialogue on the means to achieve mutual accountability and have reached agreement on a set of broadly agreed objectives to improve aid effectiveness. Under the framework of the TAS, an independent monitoring group has been created to develop methodologies to assess aid effectiveness and offer fresh proposals for improvement and change.

Results and Indicators

Although it may be possible over time to develop specific indicators to assess issues of mutual accountability, it is premature at this juncture. Rather, the process could start with mutual agreement on a set of development results at the country level. Framework documents could include the country's Poverty Reduction Strategy Paper and other relevant donor and host country studies.

The discussion should then move towards the development of a set of principles and commitments to which both sides of the partnership subscribe in order to best achieve the mutually agreed-upon results. Development results are not to be confused with process results. These mutually agreed-upon results should be quantifiable to as great an extent as possible and subsequent annual donor/host country reviews should focus on progress toward the achievement of the results. The OECD/DAC could play a helpful role in providing some general guidelines which could assist the donor community and their African partners identify such principles at the country level. Once a set of common principles has been adopted by the donor community and the recipient country host, the process of monitoring adherence to the principles should be carried out in the context of the annual meetings between the donor community and its development partners at the country level. The scope of the annual donor/host country meetings should be broadened

to specifically include separate sessions on the progress made in achieving the results and on the overall effectiveness of the assistance program.

Best practices

The donor community and its African partners could agree to review best practices in the implementation of assistance programs to tailor a program best suited to the circumstances in each particular country. For example, the donor community might commit to such ideas as aligning its assistance program with the PRSP, implementing measures to increase the responsibility of the host country in carrying out assistance programs, to increase the use of common analytical approaches to programming assistance, or to work towards greater use of host country procedures for implementing assistance programs. Likewise, the host country might commit to ideas such as strengthening it financial oversight institutions, to improving the legal and regulatory framework for private enterprise development, or to increasing the proportion of public sector funds for priority social services such as education or health.

The OECD/DAC could also play a helpful role in monitoring the mutual accountability discussions at the country level and in reporting on the nature of such discussions at a meeting in conjunction with high level gatherings such as the ECA Big Table. The discussion at such a gathering would highlight examples of effective dialogue at the country level and extract lessons learned to guide donor/host country relationships in the future. This should not be a forum, however, for a detailed examination of whether or not indicators were developed and targets met at the individual country level. The DAC/OECD could then pull together the conclusions of the discussion and disseminate them broadly.

Peer Reviews in the Context of NEPAD

It is important to make the distinction between the notion of peer reviews and the discussion of development effectiveness at the country level. The OECD/DAC already has a peer review process which periodically undertakes a broad view of development issues of its members. On the African side, one of the most attractive innovations of NEPAD is the creation of an African peer review process, which will focus on issues of improved political, economic and corporate governance values, codes and standards and on mutually agreed objectives in socio-economic development. The OECD/DAC could be helpful to the NEPAD peer review process by providing technical assistance and helping to build its capacity. This can be done by the OECD/DAC sharing experiences and in perhaps by inviting Africans to observe how the process is carried out in the OECD. The NEPAD peer review is, nonetheless, a separate African-driven process, complementary to joint donor-host country efforts to improve aid effectiveness and enhance mutual accountability.

The above discussion relates primarily to the effective utilization of ODA. However, the importance of the private sector flows from the industrialized world cannot be overemphasized. Fully 60% of international assistance to developing countries is

generated by the private sector, including non-governmental organizations and universities. The private sector must also be held accountable for the most prudent and effective use of their investment funds. For private business the incentive to produce profits of course directs resources towards their most effective use. Limited resources available to universities and non-profit organizations also dictate that they be used as efficiently as possible. Despite these natural forces which tend to encourage the private sector to make the best use of its resources, the donor community could assist its African partners to put in place mechanisms which will the safeguard the public interest in dealings with private capital inflows, assuring as best they can that such investments conform to internationally recognized standards. From the perspective of the African side of the partnership, African governments have a major role in establishing the ground rules for transparent governance at the corporate level. Country level review of donor effectiveness could also be used as a forum to discuss issues related to the private sector's contribution to economic and social development.

Conclusion

The concept of mutual accountability in defining a new relationship between the donor community and its African partners in development is a principle that most donors welcome. However, discussions may be better suited to take place within the framework of a variety of established mechanisms, and not exclusively in a formal "development effectiveness review system" under the umbrella of the OECD/DAC. The idea of an ODA forum, in which the OECD/DAC could play a facilitative role, could be helpful in pulling together lessons learned from partnership experiences, in summarizing trends, and in defining emerging issues. Such a forum could be added to larger events such as the ECA Big Table meetings where high-level representation is assured. However, such a forum should not be the mechanism through which mutual accountability between donors and a recipient country is assessed. Nor should this be the principal forum for discussion of such issues as trade and subsidy policies or debt relief, which are best addressed at other specialized venues.

It is at the country level that the notion of mutual accountability has the greatest relevance. Mutual commitments and accountability for adhering to them should be carried out on the basis of mutual trust and understanding at the level of the recipient country, not in the charged atmosphere of annual multilateral meetings. Issues such as efficiency in the use of resources, and progress toward the achievement of mutually agreed upon goals and objectives can best be assessed in face-to-face meetings at the individual county level. This can be done as part of scheduled events such as the annual Consultative Group meetings or reviews of PRSPs. There is no value-added role for yet another donor mechanism such as a standardized ECA/OECD/DAC "development effectiveness review system" in assessing mutual accountability at the country level.

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