

PD-ARN-188
91184

Reinventing Foreign Assistance for the 21st Century



USAID Proposal for the Second Phase
of Reengineering Government

October 1995

Reinventing Foreign Assistance for the 21st Century

USAID Proposal for the Second Phase of
Reengineering Government

October 1995

EXECUTIVE SUMMARY

Under the foreign policy guidance of the Secretary of State, USAID manages the United States bilateral economic assistance program. As a crucial instrument of foreign policy, foreign assistance promotes long-term sustainable development, addresses global problems, supports transitions to peace, democracy and free market economies, and provides humanitarian assistance in response to natural and man-made disasters.

In the post-Cold War era, USAID increasingly responds to emergency humanitarian and transitional situations. These include programs key to achieving foreign policy objectives in Haiti, the Newly Independent States of the former Soviet Union, Central and Eastern Europe, South Africa, Angola, Rwanda, the West Bank and Gaza and, most recently, Bosnia.

The financial and administrative demands of these humanitarian and transitional programs, combined with significant cuts to the overall foreign aid budget, severely squeeze funding available for long-term sustainable development. These programs promote worldwide economic growth and stability, as well as leverage U.S. influence with other donors. This paper describes a further radical reengineering of USAID that will allow it to continue to protect these vital U.S. interests and advance key foreign policy objectives, in the face of increasing demands and shrinking resources.

As a "Reinvention Laboratory" within Vice President Gore's National Performance Review (NPR), USAID already has taken major steps to reform both its structures and program under Phase I of NPR's Reinventing Government Initiative (REGO I).

REGO I

Under REGO I, USAID has:

- Closed 21 overseas missions (by the end of fiscal year 1996), with six more closings announced by Vice President Gore in January 1995.
- Reduced staff by 1,600 — including more than 10 percent of the senior management — through rightsizing and restructuring.
- Streamlined the agency's headquarters, eliminating more than 90 organizational units.
- Developed a strategic framework focusing on five core goals and established a performance monitoring system to ensure these goals are being achieved.
- Reduced project design time by 75 percent.
- Eliminated tons of unnecessary paperwork by replacing 65 different information systems with a single integrated system.

REGO II

An essential — and unique — element in USAID's effectiveness abroad is its network of field missions. REGO II is designed to retain the benefits of a mission-based approach, while achieving major savings.

To achieve this goal, between 1996 and 2000 USAID will further, and dramatically, reengineer its structure and programs by:

- Eliminating an additional 18 overseas missions, consolidating the existing system of 43 sustainable development missions into 25 or fewer. With this consolidation, USAID will also launch a new regional system that supports smaller programs focussed on key issues. Between seven and ten regional support centers or "hubs" (several of which will be located within remaining sustainable development missions) will support these "satellite" programs, enabling USAID to maintain a strong base for its vital field operations.
- Developing clear goals for when USAID activities will be phased out in each country in which it operates. Where USAID's goals are achievable within five years, the

Agency will develop specific "exit strategies" to permit the termination of aid while assuring sustainability.

- Expanding the New Partnerships Initiative (NPI) to effectively advance USAID's core sustainable development goals, which include strengthening grassroots capacity-building and fostering sound economic policies and regulatory and resource environments.

This further reengineering will allow USAID to:

- Reduce total staff by an additional 1800-2000 positions.
- Reduce operating expense requirements \$125 million by 1999.
- Reduce program expenditures in accord with the President's budget reduction plan.
- Streamline operations in Washington and the field.

Reducing field presence and direct-hire staff will necessarily decrease USAID's technical expertise and America's influence in particular countries. But this plan represents a responsible approach that will preserve America's leadership role while serving the President's goal of balancing the federal budget.

TABLE OF CONTENTS

	page
EXECUTIVE SUMMARY	i
I. Introduction.....	1
USAID's Mission	2
Donor Coordination	4
Threat to U.S. Development Leadership	4
Next Steps	5
II. Reinventing Government	5
A. Results of REGO I.....	5
B. New Realities	7
C. The Plan for REGO II	8
1. Exit Goals and Strategies.....	8
2. Regional Programming	11
3. New Partnerships Initiative.....	13
4. Measuring Results	14
D. New Structures	14
1. Sustainable Development Missions and Regional Hubs	14
2. Satellite Programs	15
3. Streamlining Washington	16
E. Expected Savings from REGO II.....	17
III. Countries in Crisis.....	17
IV. Conclusion	18

Reinventing Foreign Assistance for the 21st Century:

Advancing American Interests in the Post-Cold War Era

I. Introduction

For over four decades — from the Marshall Plan until the fall of the Berlin Wall — the dominant justification for foreign aid was its contribution to our principal foreign policy goal: the containment of communism. A related, but always secondary, goal was to promote the development of third world nations, both as part of "containment", and as a reflection of the values of the American people.

Today, with the Cold War ended, we are engaged in a national debate over how the United States should deploy its resources abroad to best support its interests (See Figure 1). The answer to this question derives from the following understanding of the nature of the post-Cold War world and how it relates to our national security:

- Development assistance works. Most of the world is increasingly prosperous and increasingly integrated economically. Expanding prosperity and economic

integration have not solely benefited the populations of newly developed countries, but have resulted in an enormous increase in markets for U.S. goods and a concurrent increase in America's economic health. In Asia and Latin America, the U.S. and other donors have increasingly used their aid to support sensible, flexible, free-market economic policies. Growth has been considerable in these regions and promises to increase with the inflow of capital and the rise of private investment that logically follows successful development. Peace in the Middle East will increase the opportunity for prosperity in that region, and maintenance of stability and economic reform on the Indian subcontinent could produce rapid growth. Many of the countries of Eastern Europe, and the former Soviet Union, have shown real progress towards the economic and political transitions which will integrate them fully with the world economy. The potential benefits to the U.S. and the people of these nations, from greater economic integration and cooperation, is tremendous.

- The post-Cold War era has also brought conflict and economic collapse to a number of nations whose political and economic foundations were weak. These failed states have threatened U.S. national security and required vast amounts of humanitarian aid from the rest of the developed world. These crisis spots include the former Yugoslavia, Haiti and some of the new states on the borders of Russia, many of which lack the economic foundations and policies to promote prosperity, are ethnically diverse, have a history of conflict, and are still probing the limits of their territories and power. There remain troubled spots in Africa: Somalia, Rwanda, Angola and Liberia, where a combination of poverty, poor governance, statist economic policies, ethnically divided and poorly integrated societies, and an absence of effective regional security, have made countries vulnerable to conflict and collapse. The development task in Africa is far from accomplished and far from simple.

Figure 1

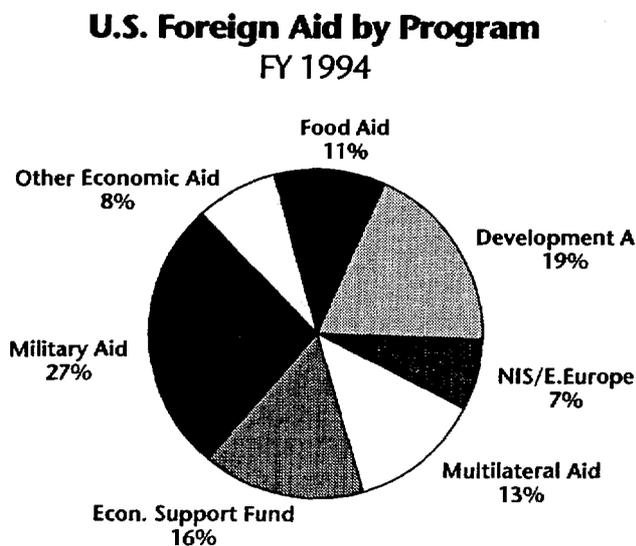


Figure 2

REGO I Accomplishments

- Twenty-one missions closed
- Staff reduced by 1,600
- Over 90 organizational units and over 70 senior staff positions eliminated
- Project design time reduced by 75 percent
- New integrated information system implemented
- New strategic framework in place

- The increasing integration of nations and economies means the strategic, economic and political interests of the U.S. are closely linked to events in other nations. Local problems have become global problems, particularly in areas such as the environment, unsustainable

population growth and health. The threat of the Cold War no longer obscures this fact.

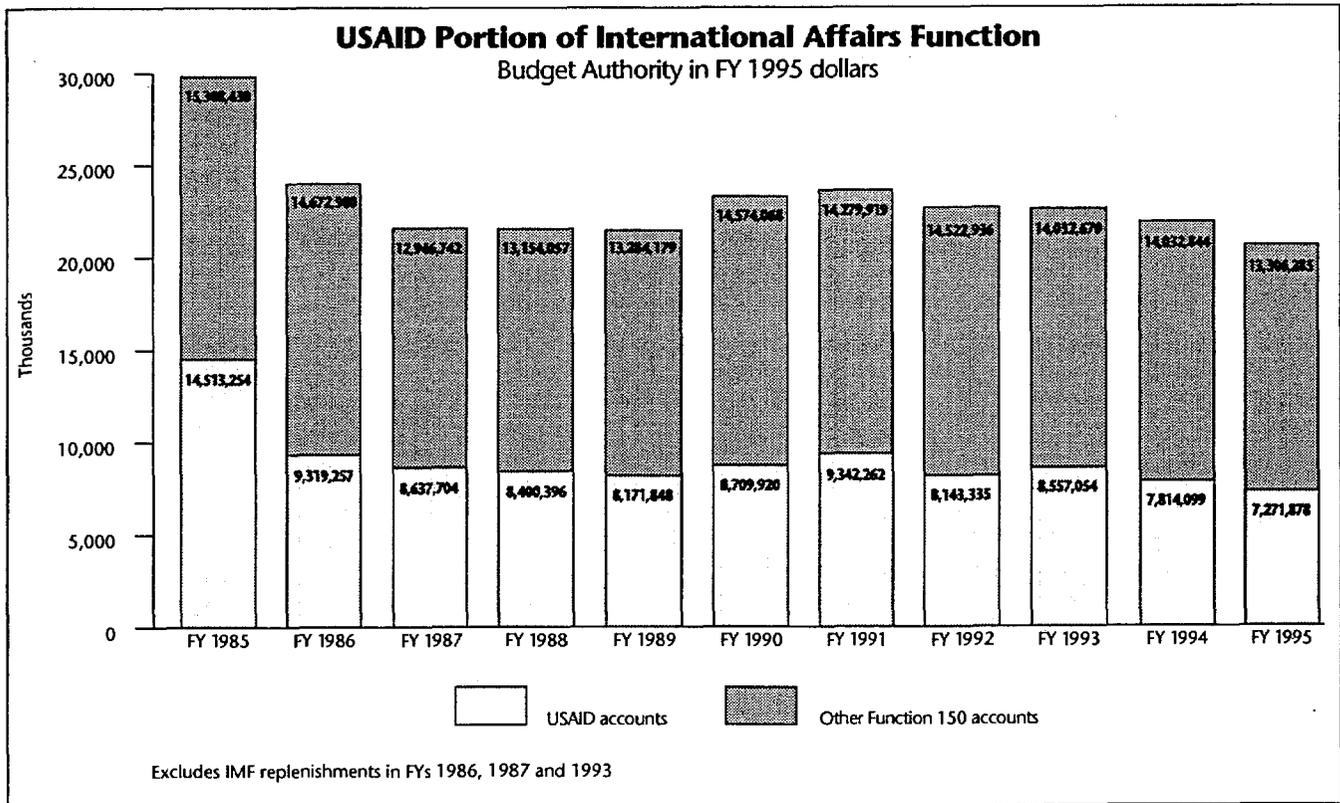
These characteristics of the post-Cold War world provide the conceptual framework for bilateral economic foreign aid under REGO II: to support transitional societies and sustainable development; and to deal with global problems of significance to Americans as well as peoples abroad. These objectives provide a basis for a continuing, but even more extensive, restructuring of USAID than was accomplished under REGO I (See Figure 2).

The challenge of the second phase of Reinventing Government is to reengineer USAID into a leaner and more flexible instrument of foreign policy while preserving its mission and leadership in the area of economic development, and minimizing, to the extent possible, the impact of budgetary cuts on its overseas presence and program effectiveness (See Figure 3).

USAID's Mission

USAID promotes long-term, sustainable development by undertaking integrated programs in four key sectors: eco-

Figure 3



conomic growth, population and health, environment, and democracy. USAID also responds to natural and man-made crises with humanitarian assistance in the form of disaster relief, food, and capacity building in transition situations (See Figure 4). It has long been a world leader in each of these areas.

An essential and unique element in USAID's effectiveness is its network of overseas missions. The presence of USAID experts in the field permits the Agency to:

- ensure utmost accountability of U.S. taxpayer funds;
- take a comprehensive and fully informed view of local needs and opportunities and tailor programs to meet those needs effectively;

- engage local groups and individuals in the design and implementation of its programs;
- maintain a continuing dialogue with recipient governments on policies appropriate to supporting development;
- monitor closely (and alter, when necessary) programs as they are implemented; and
- coordinate the use of resources with other donors.

While much good development work can be accomplished without a field presence, the field mission approach has long been preferred by the United States. Its strengths have been widely recognized and praised by other aid agencies (See Figure 5). Indeed, other donors use USAID field missions to inform their own programs.

Figure 4

Agency Strategic Framework: U.S. National Interests, Agency Mission and Agency Goals

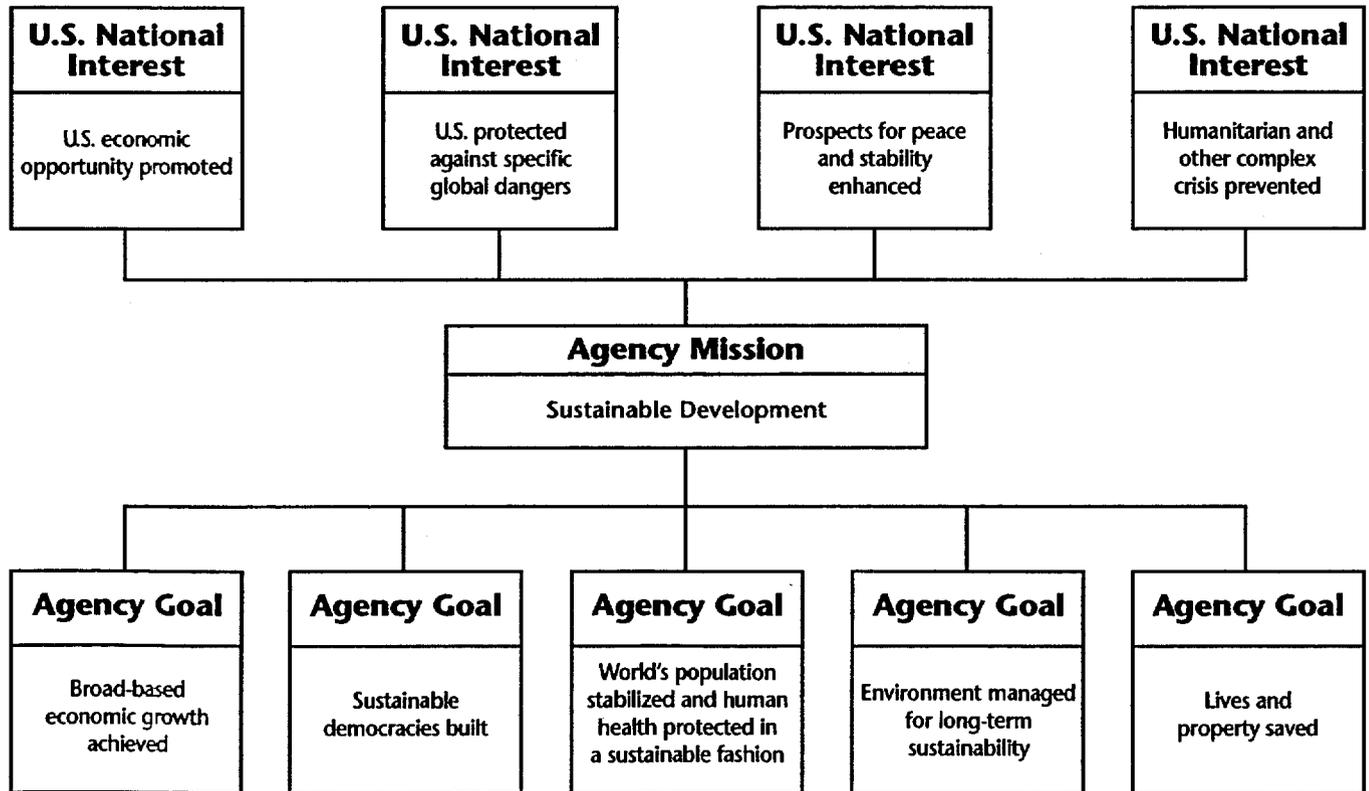


Figure 5

Importance of Field Missions

"[USAID's] stronger thrust towards performance-based management... should be implemented in a way which enhances... USAID's traditional strengths. One such strength is the key role of the field mission and the ability to establish long-term relationships with local counterparts. With this strength, USAID has produced significant institution-building and policy reform successes, with benefits occurring over decades.

If performance-based aid management works well, it should enhance the status that USAID field missions already hold as a basic authority on the local development situation in many countries, and their role in donor coordination. ... while some... mission closures... were obviously justified, in some of the more difficult countries the U.S. field presence will be missed."

OECD Report, 1995

USAID also undertakes three other sets of country programs:

1. Where a full field mission is not appropriate (because the country does not require such extensive support, because the government's commitment to sustainable development does not equal that of other countries, or because the excessive cost of a field presence cannot be justified), USAID works on problems of mutual interest, such as preserving the environment, establishing family planning programs or supporting elections.
2. Where countries are experiencing rapid economic or political change, principally Central European countries and the NIS, USAID undertakes programs primarily designed to ensure smooth and effective transitions from command economies to free markets and from authoritarian to democratic regimes.
3. Where countries have suffered natural or man-made disasters, USAID provides emergency relief and works to ensure there is as smooth and rapid progress as is possible towards renewed development.

Donor Coordination

In addition to its direct support of development, transition and relief, USAID has long acted as a leader among aid donors — breaking new ground conceptually (as with family planning, microenterprise lending, women in development or democratization), mobilizing resources to address key problems or help priority countries (for example, Haiti), and coordinating overall donor efforts to promote sustainable development abroad.

The stature of the U.S., the size of its bilateral aid program and, most importantly, the creativity and relevance of its ideas, have provided USAID with the ability to lead other donors and to influence the governments of recipient countries on issues of development and transition that no other aid agencies — bilateral or multilateral — can replicate. Preserving USAID's field presence under REGO II is a critical factor in preserving U.S. leadership among donors and leveraging U.S. resources (See Figure 6).

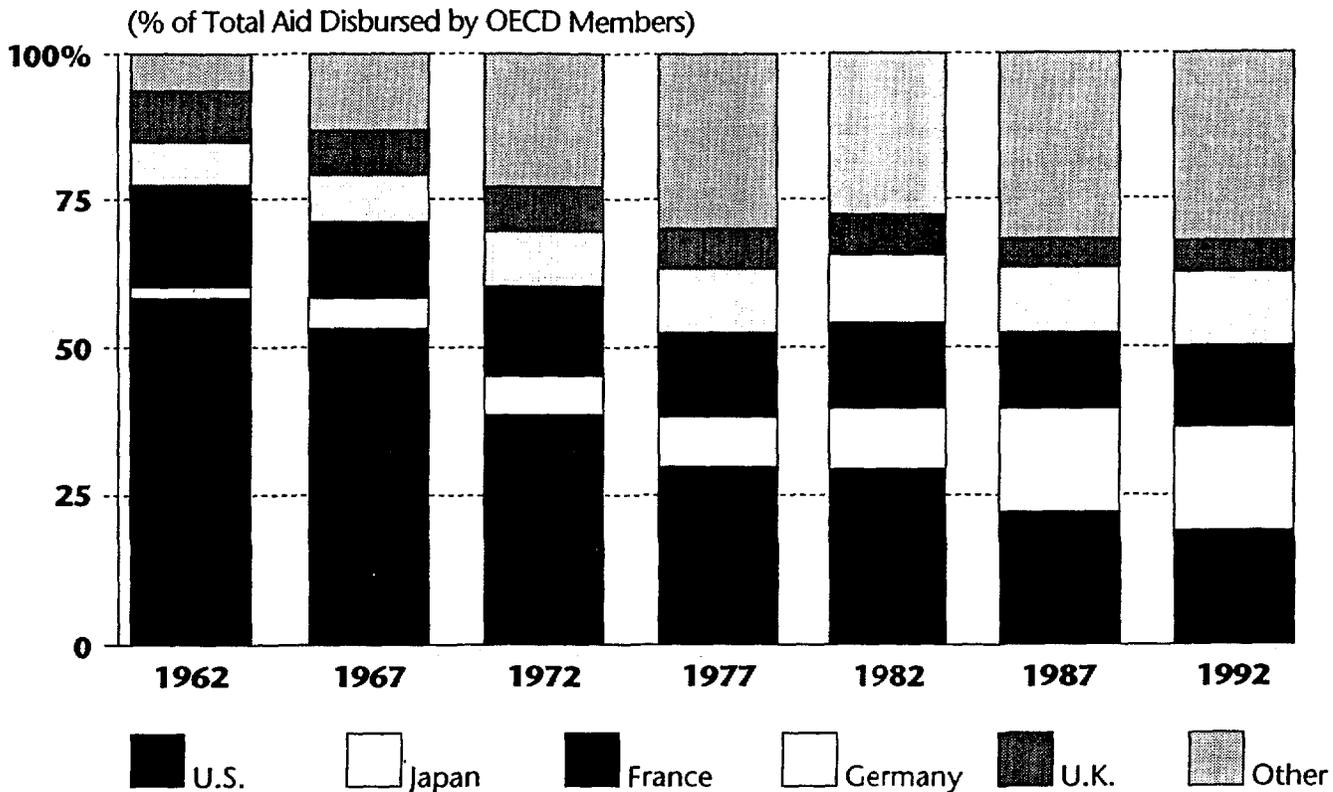
Threat to U.S. Development Leadership

Much of what has been, and will continue to be, undertaken under the National Performance Review are measures that would have gone forward without regard to budget cuts. Streamlining the Agency, overhauling outmoded procedures, prioritizing assistance goals, building synergies, are actions that have been taken because they make good development sense and good business sense.

However, there is a resource threshold below which the Agency cannot continue without compromising its mission. When it can no longer afford a field presence, when it can no longer afford to maintain its technical expertise, when it can no longer provide leadership in key sectors, when it no longer has the financial and technical resources to leverage other donors, USAID will be crippled in its abilities to achieve its core mission. Further deep budget cuts beyond those already anticipated could take USAID across that line (See Figure 7). And deep budget cuts of any kind — where they have to be absorbed in a short period of time — can profoundly disrupt USAID or any public Agency and impair its effectiveness in achieving its mission.

Figure 6

America's Declining Share of the Foreign Aid Burden, 1962 - 92



Source: Organization for Economic Cooperation and Development (OECD).

Next Steps

This paper outlines an approach to REGO II that builds on USAID's field-based strengths. The ultimate goal remains: to stimulate lasting economic, social and political progress in order that developing countries may move beyond the need for assistance. The development experience of the past half century shows that when the foundations of growth are in place (i.e., when economic policies create an enabling environment that encourages productive investment, when political systems are open and inclusive, when adequate human and physical infrastructure are in place, and when population growth and the use of the environment are sustainable), peace and prosperity follow. That is USAID's principal role: to help countries achieve a level of development that brings lasting prosperity, peace and growing opportunities for trade, investment and other forms of cooperation.

II. Reinventing Government

A. Results of REGO I

As a result of REGO I, the way USAID operates has been streamlined in fundamental ways. In computerizing all of its financial and programmatic information in one system, all Agency officials will be able to find out instantaneously how much has been obligated and spent, where and for what purposes, and — most importantly — with what results. This system may seem basic to the efficiency and effectiveness of any public Agency's operations, but the fact is that USAID will be the first U.S. government Agency to put in place such a system.

This new system, plus other reengineered systems involving the process of planning and implementing programs, procuring goods and services, and hiring and evaluating personnel, will dramatically decrease the time and paperwork required by all these activities. These systems will make Agency procedures far more transparent and, most critically, make USAID officers far more effective in what they do. These sweeping changes became effective October 1, 1995. Specific achievements of these and other REGO I changes include:

- Closing missions in 21 countries by the end of fiscal year 1996 (See Figure 8). Criteria for closing missions included: those nations that had "graduated" from the need for assistance; countries that had proven to be poor partners in development; and missions that were too small and expensive to operate. An additional six missions were announced for closure in a January 27, 1995 letter from the Vice President to the Congress.

- Developing a new Agency strategic framework to achieve sustainable development, focusing on four core goals — achieving broad-based economic growth, building sustainable democracies, stabilizing world population and protecting human health, and managing the environment for long-term sustainable development. All Agency programs must be directed toward achieving these goals, wherever possible addressing them together in a country setting in a participatory, integrated and strategic manner. The Agency has established a performance monitoring system to ensure that these goals are being achieved.
- Restructuring the Agency's headquarters operations, and eliminating more than 90 organizational units. The headquarters rightsizing effort reviewed the size and functions of all bureaus and offices in Washington. It produced a consolidation which established a new set of interdependent entities whose goal was to work together rather than to compete with each other. As an

Figure 7

U.S. Foreign Assistance, 1946-95

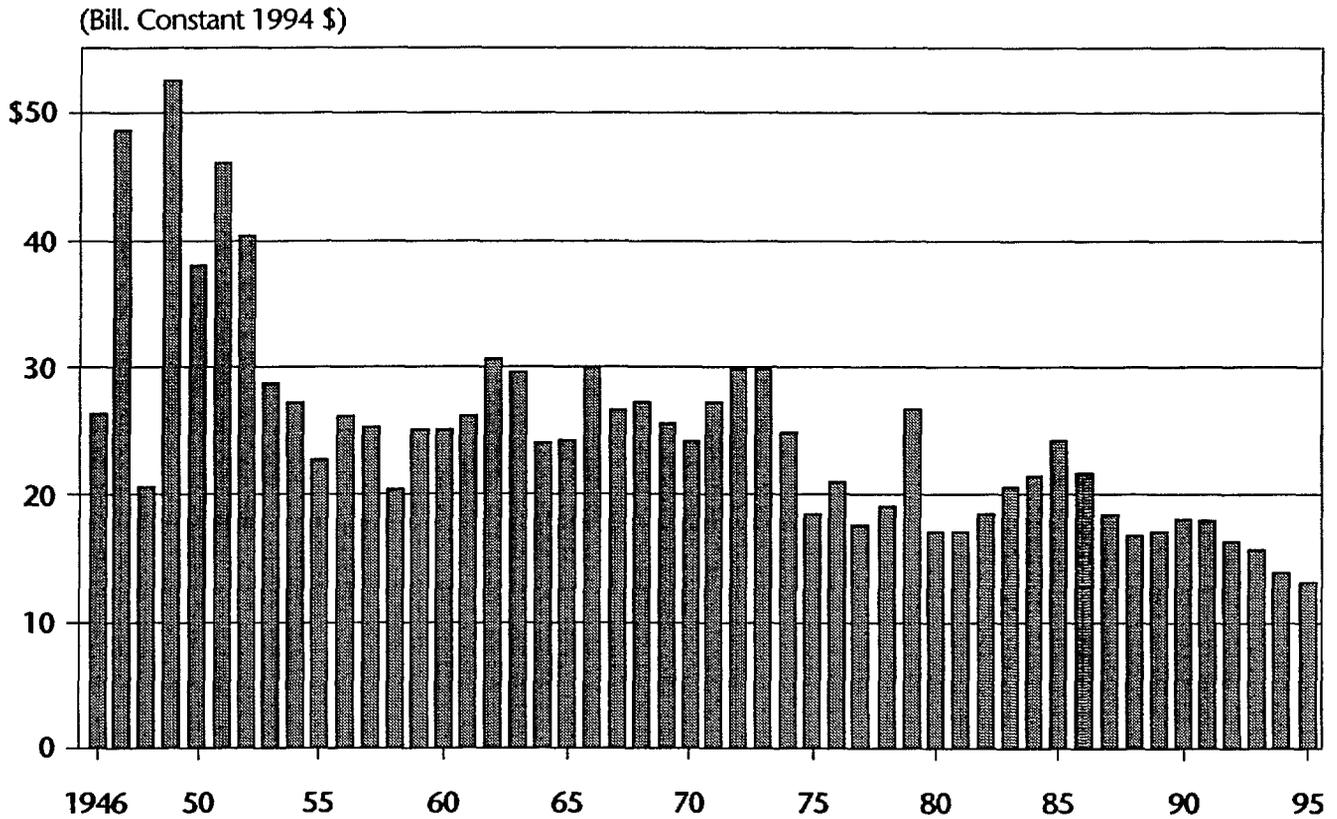


Figure 8

First Round of Mission Close-outs FY 1994-FY 1996 - 21 Missions	
Afghanistan	Costa Rica
Argentina	Cote D'Ivoire
Belize	Lesotho
Botswana	Oman
Burkina Faso	Pakistan
Cameroon	So. Pacific Reg.
Cape Verde	Thailand
Caribbean Reg.	Togo
Chad	Tunisia
Chile	Uruguay
	Zaire

example, most of the Agency's technical development expertise has been consolidated into a new Bureau for Global Programs, Field Support and Research. This arrangement centralizes expertise in the design and review of programs so field missions can learn from each other's experience and have access to the most up-to-date technology, while ensuring that central research and field support programs are more relevant to the programs being carried out in field missions.

- Reducing staff by more than 1,600. More than 1,000 staff — direct-hire and personal services contractors — have left the Agency over the past two years and have not been replaced, and another 800 will depart by the end of fiscal year 1996, leaving about 8,400 total staff compared with more than 10,000 at the start of the Clinton Administration (See Figure 9). More than 70 senior positions — more than ten percent of the senior work force — were eliminated in the initial rightsizing.
- Reducing project design time by 75 percent by reengineering the Agency's design and implementation process. At the heart of reengineering lies the Agency's new program processes, based on a comprehensive set of strategic goals and designed to deliver assistance to the field more quickly and effectively. Emphasis has shifted from managing inputs to managing for results, and field posts have been given more authority to (1) allocate available resources to maximize program results, and (2) to establish more active partnerships for planning and managing programs with private and

government representatives in recipient countries. Within individual missions, multi-disciplinary teams are being created to manage the development and implementation of programs. The reengineering is producing better and more tangible impact in development programs.

- Putting in place a new, integrated information system that replaces 65 different systems and will eliminate tons of paperwork and expedite contracting. The program processes mentioned above will be supported by an integrated set of financial, budgetary, procurement and personnel procedures and information systems. These systems will function worldwide and will eliminate many of the costly and duplicative mini-systems that now exist. This streamlined approach will give USAID the capacity to function in the future with fewer direct-hire staff.

B. New Realities

The President's ten-year deficit reduction plan sets budgetary goals which inform efforts to reinvent foreign assistance programs under REGO II (See Figure 10). While the approaches and timeframes of the

Figure 9

USAID Staff Levels (direct-hire plus personal services contracts)

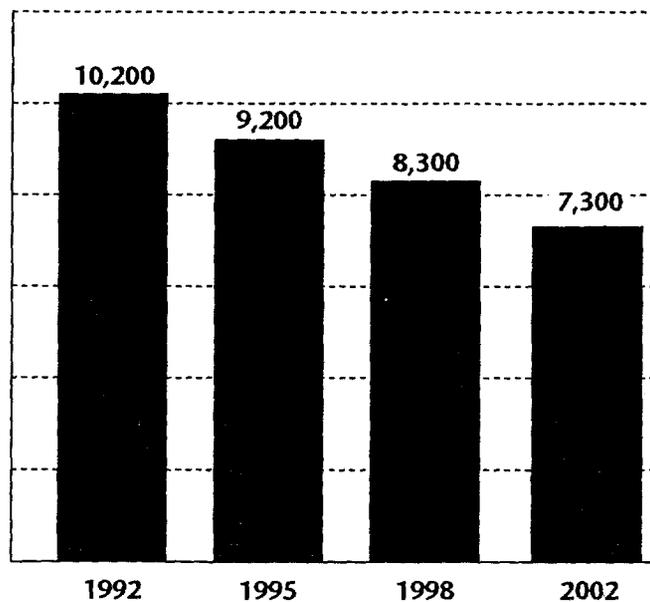


Figure 10

**REGO II: New Realities
and Goals**

New Realities:

- Dramatically reduced budget levels
- Need for U.S. to address threats of post-Cold War: failed states, overpopulation, environmental degradation, refugee flows

New Goals:

- Devise a new cost-effective organizational structure
- Maintain presence in field
- Maintain flexibility to respond to new and emerging development challenges
- Employ creative new development approaches, such as the New Partnership Initiative

Administration and the Congress have differed on when the budget will be balanced, both entail significant reductions in spending on International Affairs (Function 150) programs over the next decade. The President's Budget for fiscal year 1996 requested \$21.2 billion in discretionary budget authority for Function 150 programs. The Congressional budget resolution contains \$18.3 billion for these programs, a reduction of \$2.9 billion — a cut of about 14 percent. The President's deficit elimination plan includes \$19.8 billion for Function 150 in fiscal year 1997, with declining levels in the out-years.

USAID's programs will be directly affected by the downward trend in International Affairs funding. This impact will be felt both in program levels and in operating expenses. Actions taken to date by the authorizing and appropriations committees of Congress for fiscal year 1996 indicate that bilateral development assistance may be cut in at least the same proportion as the overall Function 150 budget. All administrative expenses, domestic and international, are likely to be a prime target of those whose objective is to downsize government significantly.

Preserving USAID's unique institutional capacity will remain a central objective as USAID streamlines its operations. Every evaluation, by USAID or the General Accounting Office, by government or independent experts, or independent international bodies such as the Organization of Economic Cooperation and Development, have concluded that the USAID missions abroad constitute the most effective mechanism for carrying out foreign aid programs. Where countries are full partners in pursuing sustainable development, full USAID missions are the best way to achieve our development objectives. However, future resource constraints dictate that USAID will no longer be able to retain full missions in the number of countries in which it currently operates. REGO II is designed to streamline both the overseas and headquarters organizations, while retaining the essential benefits of the current mission-based approach.

C. The Plan for REGO II

The world has changed and USAID must change with it. (See Figure 11). Accordingly, as part of REGO II, USAID will undertake the following three initiatives that directly respond to the opportunities and challenges in the post-Cold War world.

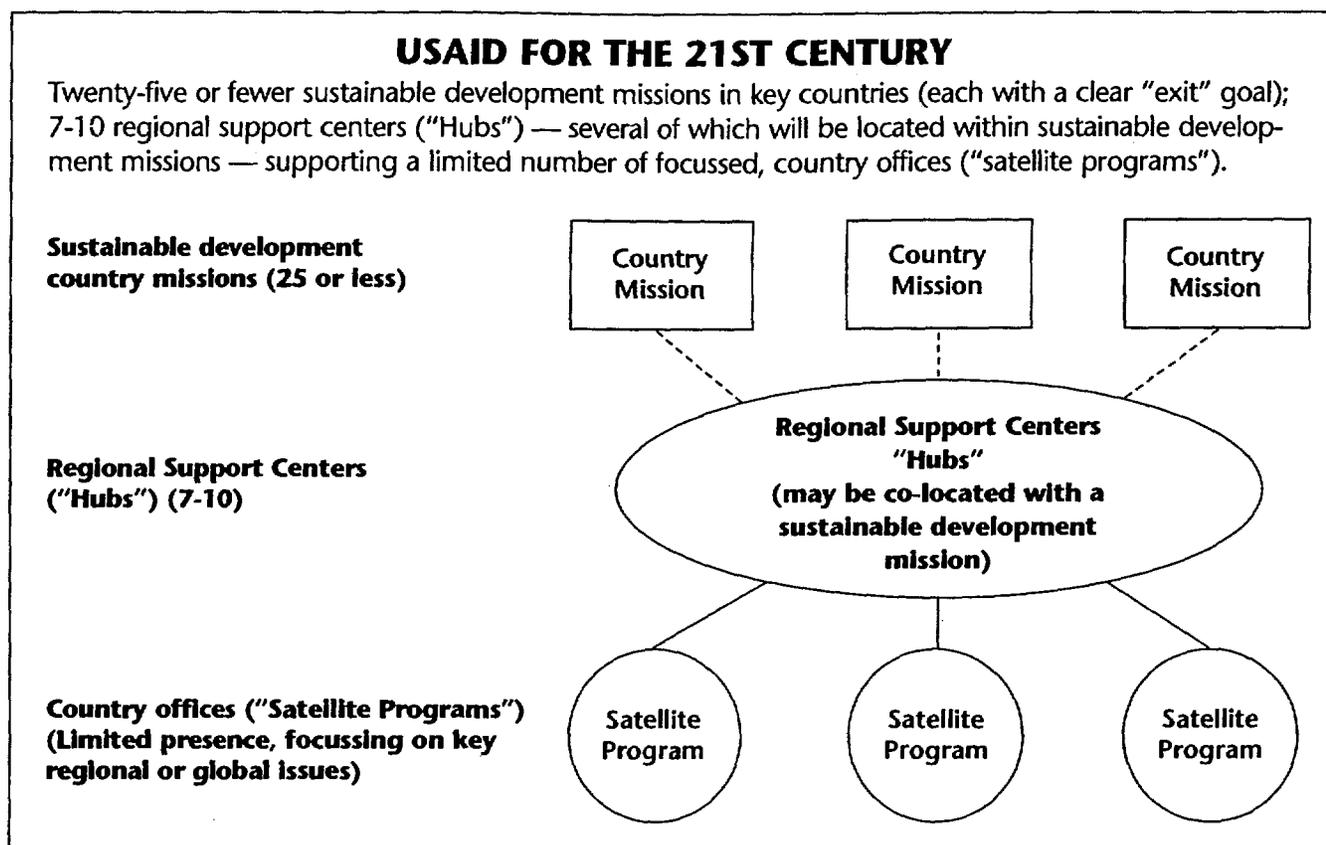
First, the combination of increasingly successful development programs and decreasing resources means USAID can and must be more aggressive in setting exit goals and strategies for each of its programs. Second, achieving necessary cost savings while responding to the increasing importance of regional economies and transnational problems means USAID must put renewed emphasis on regional programming (while maintaining an overseas presence, so important to its effectiveness). Third, strengthening the worldwide trend towards an interdependent system of free market democracies means USAID must reinforce effective partnerships among nongovernmental organizations (NGOs), small business and democratic local government (see Figure 12).

1. Exit Goals and Strategies

The ultimate objective of USAID is to work itself out of a job, in as short a time as possible, by helping nations achieve lasting development (See Figures 13a and b).

Today, with its new emphasis on programming for results, USAID is better positioned to incorporate plans for ending its assistance programs than ever in its history. As a result, it will henceforth be the policy of USAID to identify "exit

Figure 11



goals" in each country in which it operates. These goals will specify the conditions needed to achieve (or restore) sustainable development, and describe a strategy (including the results to be achieved with USAID's own funds and what is needed from other donors) for achieving those conditions. Exit goals will also specify within what timeframe, all other things being equal, those conditions can be met.

Where USAID's goals are achievable in five years or less, the Agency will develop "exit strategies" — the specific actions to be taken that will permit the termination of USAID's activities in a country while assuring the sustainability of its achievements after U.S. assistance is ended.

In all cases, the ultimate objective of U.S. concessional assistance is for the aid-recipient country to become a fully functioning participant in a worldwide system of democratic states, operating within free market economies with liberal trade and investment regimes. Healthy market economies offer the best prospects for sustained, broad-based growth, expanded individual opportunity, and reduced poverty.

Emergency Humanitarian Relief

Exit goals for programs of emergency humanitarian relief will typically describe the conditions necessary to alleviate human suffering caused by natural and manmade disasters. The duration of these types of programs rarely exceeds 90 days, except in the case of complex disasters where political problems prevent the establishment of effective government structures, the return of refugees and displaced persons to their homes and satisfactory economic recovery (See Figure 14). In cases of complex disasters, program termination may depend significantly on political factors and these too will be included in a statement of exit goals.

Countries in Transition

In the case of aid for political and economic transitions, exit goals might include the establishment and consolidation of key democratic institutions, the strengthening of civil society and the establishment of a functioning free market (with, for example, privatization programs, appropriate commercial laws and regulations, strong financial institutions.)

Figure 12

**REGO II:
Plan Summary**

- Maintain field presence, but cut back the number of development missions from 43 to 25 or fewer
- Use system of 7-10 regional centers (hubs) to support limited programs with offices in non-mission countries (satellites)
- Devise exit strategies for more prosperous countries and exit goals for other countries

RESULTS:

- Reduce staff by approximately 1800-2000
- Save \$125 million per year in Operating Expenses from current levels

Global Issues

In countries where USAID is addressing global issues, the exit goal would describe how and when the conditions causing the particular issue would be resolved. For example, if the global problem is to assist a country reduce unsustainable levels of population growth, through programs of voluntary family planning, the exit goal would describe how and when conditions necessary to achieve a certain level of growth would be achieved (including what types of government policies and what levels of internal and external resources would be necessary). If the problem is related to a pattern of environmental degradation, the goal would be to reverse that pattern through programs of direct assistance or policy reform. Where USAID is addressing a discrete global issue (as opposed to operating an integrated sustainable development program), the exit goal would also describe how resolving the specific issue would assist a recipient government to achieve its own sustainable development (and, if applicable, how it would affect conditions in the U.S.).

Sustainable Development

In countries where USAID is working to achieve sustainable development, the exit goal will identify:

- the conditions necessary for a country to sustain equitable economic growth;
- the conditions necessary for a healthy civil society;
- the basic levels of education, and child, maternal and reproductive health consistent with sustainable human development.
- the critical environmental protection actions needed to manage natural resources wisely and prevent needless threats to public health.
- the strategic sectors in which USAID (and other donors) must work;
- the specific actions and results USAID must accomplish, over a given amount of time, to achieve these conditions; and
- key partners who will help bridge the USAID exit and the development of new relationships based on trade and investment and other mutual interests.

Unexpected Events

It is important to note that unexpected events may change exit goals and the timeframe in which they are to be achieved (e.g., windfall economic gains may reduce or change goals, shortening the timeframe; civil conflict may expand goals, lengthening the timeframe). Country exit goals and strategies will be updated and revised annually and published every three years to reflect significant changes in conditions.

Exit Strategies

As each sustainable development program approaches the point where U.S. development assistance no longer will be required (usually within five years of graduation), specific exit strategies will be developed for the termination of USAID programs. As countries reach these conditions of prosperity, their economic relationships with the U.S. will naturally diversify with expanding opportunities for trade and investment.

Specific exit strategies will vary depending on the needs and conditions of each country. Policy guidelines governing exit strategies are now being developed by USAID's Bureau of Policy and Program Coordination, in cooperation with USAID's regional bureaus and overseas missions and our development partners.

Figure 13a

Former Recipients of U.S. Economic and Humanitarian Assistance

The following is a list of the 47 nations that have "graduated" from U.S. assistance programs. An impressive 30 of these former aid recipients have enjoyed such prosperity since receiving U.S. assistance that they are now donors themselves. This list of graduates includes USAID mission closures announced in 1993 and 1994 that are being phased out through fiscal year 1997.

Graduates 1962-1996

Algeria*	Chile*	Iceland*	Saudi Arabia*	Tobago
Argentina	Costa Rica	Italy*	Singapore*	Tunisia
Bahamas	Czech Republic	Japan*	South Korea*	Turkey*
Bahrain*	Estonia	Malta	Spain*	Uruguay
Barbados	Greece*	Oman	Taiwan*	Venezuela
Belize	Grenada	Portugal*	Thailand*	Western Samoa
Botswana	Hong Kong*	Ryukyu Islands	Trinidad and	

Graduates 1946-1961

Australia*	Canada*	France*	Netherlands*	Sweden*
Austria*	Denmark*	Germany*	New Zealand*	United Kingdom*
Belgium*	Finland*	Luxembourg*	Norway*	

*Donors

Exit guidelines will focus on the policy and institutional changes needed to facilitate the termination of assistance. For example, domestic savings and international capital flows will become the principal sources of investment financing as countries become stable and prosperous. USAID's exit strategies will, therefore, typically include mechanisms for strengthening a country's ability to attract and use such capital (e.g., strengthening financial markets, ensuring access by micro and small businesses to the larger economy, expanding access by domestic and foreign entrepreneurs to information on investment opportunities).

In addition, training, technical assistance and the creation of sustainable funding sources for local NGOs (for example, foundations and endowments), plus efforts to ensure that other donors continue to finance needed activities, would normally be part of most exit strategies.

Exit strategies will also include an identification of which domestic institutions — whether governmental or non-governmental — are critical to promoting sustainable development and for completing smooth transitions. In

this context, USAID's New Partnerships Initiative (see below) will be an integral part of these strategies.

2. Regional Programming

Under REGO II, USAID will fundamentally restructure the way it delivers assistance. Eighteen additional sustainable development missions will be closed. In those countries, large-scale, integrated assistance programming (typically involving three-to-four sectors) will be reduced or eliminated. The 25 sustainable development missions that remain will be key countries important to U.S. interests.

In addition to the 25 remaining sustainable development missions, a limited number of USAID direct and local hire staff will continue to manage two, more limited, types of development assistance programs: (1) those addressing country specific issues; and (2) those dealing with region-wide development issues. These "satellite" USAID country offices will rely on regional support centers ("hubs") (primarily located in one of the remaining coun-

Figure 13b

The following 19 nations have been dropped from assistance programs because they were either not "good partners" in development or because these overseas missions were small and expensive to operate.

Bad Partners and Small, Expensive to Operate Missions

Afghanistan	Cape Verde	Iran	Pakistan	Togo
Burma	Chad	Iraq	Papua New Guinea	Vietnam
Burkina Faso	Cote D'Ivoire	Lesotho	Swaziland	Zaire
Cameroon	Cuba	Libya	Syria	

tries in which sustainable development missions are located) for administrative and technical assistance, as needed.

Country Specific Issues

In some cases, U.S. interests may require USAID to operate a limited assistance program to achieve a country specific objective. For example, a country may be making important strides to achieve sustainable development, but still have a large pocket of the very poor. It may make sense for USAID to support a microenterprise project to help raise the income earning capacity in that targeted area. In these countries, action by USAID also may be a critical link in a larger external donor program of support vital to overcome one or two remaining obstacles to sustainable development. Such country specific programs would be supported administratively and technically from a regional hub, with, possibly, a small number of direct-hire and contract USAID staff assigned to the country to manage program implementation.

New Regional Approaches

Throughout the world, USAID will use this system of hubs and satellites to give increased importance to addressing region-wide issues — for example, supporting regional programs to reduce the transmission of diseases; regional trade and investment initiatives; regional environmental protection or water projects; problems of regional food security; and other critical problems encompassing a group of countries.

Regional approaches to development are not new to USAID. The Central American Common Market was established in the 1960s. In the 1970s, the Sahel Development Program was formed. In the 1980s, the Southern African Development Coordination Committee was created.

All of these regional approaches brought their particular challenges, including: the preference on the part of recipient governments (as well as part of our own government) to have bilateral aid over which they enjoyed greater influence than they would over regionally programmed aid; the difficulties of coordinating and administering aid programs among several governments (both donor and recipient); and the weaknesses in regional organizations to which our aid was linked.

However, there is good reason to respond to the renewed emphasis on regional collaboration now visible in Asia (for example, with ASEAN), in Africa (with SADC and IGAAD), and in Latin America with a reinvigorated Central American Integration System expanding beyond the economic sphere to include a Central American Parliament, Environment Alliance, and Health Sector Forum, with the Andean Pact, MERCOSUR and CARICOM, along with a revitalized Inter-American System exemplified by last year's Summit of the Americas. Ever closer economic and political integration among countries in many parts of the world, from subregional to hemispheric in scope, means that the moment is opportune to give increased emphasis in our own programs to regional approaches to development.

Implementing Regional Programming

The first task is to identify opportunities for effective regional programming. This should include joint studies and assessments of regional development problems and opportunities involving both USAID and recipient governments. Another element in a renewed emphasis on regional programming should be reviews by our missions of the strength, commitment and goals of regional institutions to identify promising opportunities for collaboration. In this context, it is important to keep in mind that some problems are regional in nature and their solution requires

every country affected to be involved in carrying out a common program — control over deforestation in a common watershed is one example. In others, all countries in a given region may be affected by the same problem, but the actions to address the problem may be country-specific and perhaps different.

3. New Partnerships Initiative

The New Partnerships Initiative (NPI) will be a significant part of USAID's programs under REGO II. First announced by Vice President Gore in Copenhagen, NPI focuses USAID's sustainable development activities on local capacity building in the areas of nongovernmental organizations, small business, and democratic local gover-

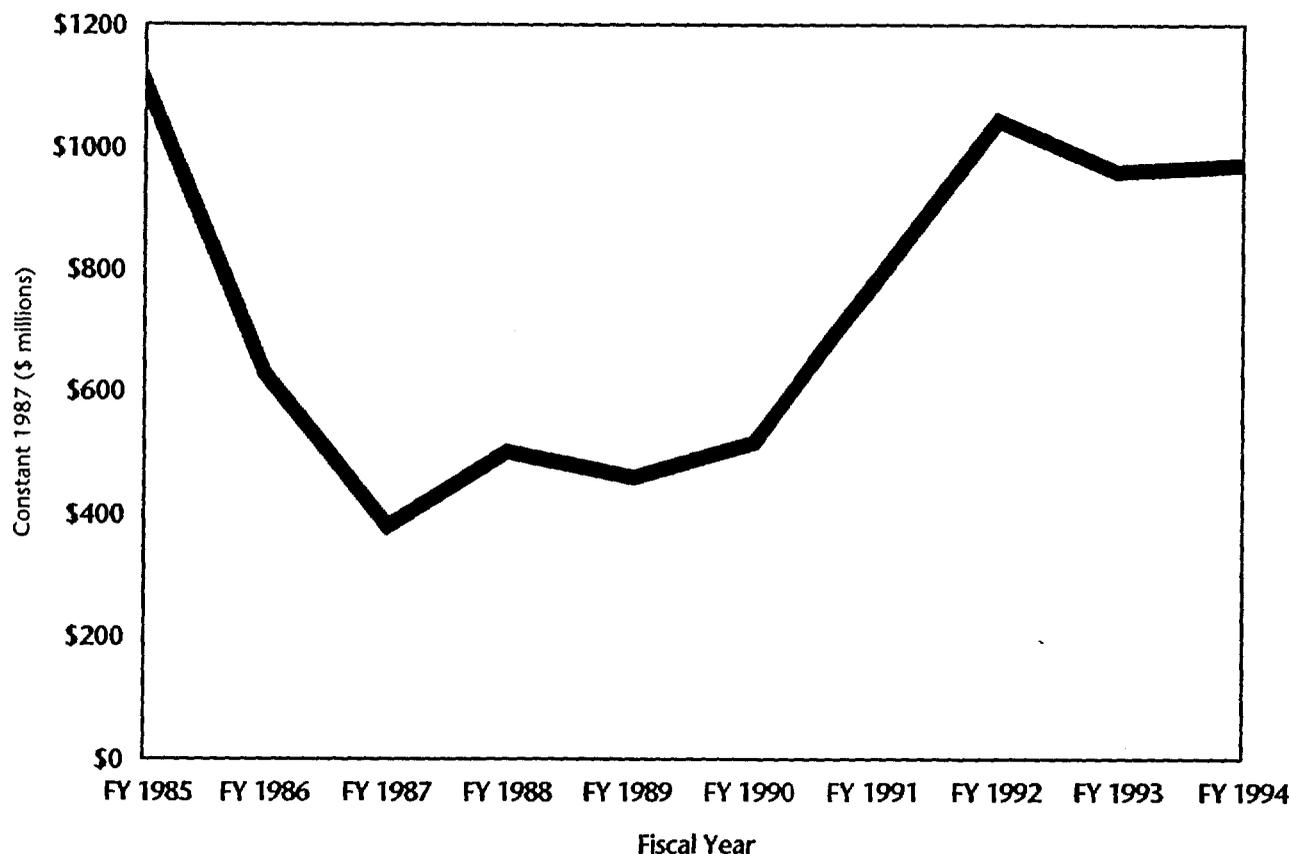
nance. Particular emphasis is given to the consolidation of partnerships among these three sectors, supported by their U.S. counterparts.

NPI works at two key levels to advance USAID's sustainable development goals: (1) grassroots capacity-building to strengthen the ability of local actors to contribute directly to sustainable development; and (2) working with host countries to foster the national policy, regulatory, and resource environments in which private and community action can flourish.

Through NPI, USAID will strengthen its relationship with a broad range of development partners, both in the United States and developing countries — including private

Figure 14

Total USG Spending on Humanitarian Assistance 1985 - 1994



*1985 includes the Ethiopian Drought

Note: Excludes DOD funding for humanitarian assistance. In FY 1994, DOD provided \$428.0 million for humanitarian assistance. In prior years, it is not possible to disaggregate DOD humanitarian assistance from DOD peacekeeping operations. Including DOD funding in FY 1994, the Total for USG Humanitarian Assistance was \$1,480.4 million or \$1,306.7 million in constant 1987 dollars.

voluntary organizations (PVOs), NGOs, cooperatives, associations of municipal organizations, the business community, universities and community colleges, think tanks, foundations, and other donors. One aspect of NPI is a target commitment to channel 40 percent of USAID's development assistance funds through U.S.-based and local PVOs and NGOs by the year 2000.

NPI makes it possible for USAID to reduce its direct management role by affording greater autonomy and responsibility to its partners, thereby providing cost savings over the medium term. It is applicable to all of the countries in which USAID works and will be shaped to fit the special requirements of particular regions and individual countries.

In sum, NPI provides local citizens with a legitimate role in the development process, the capacity to influence that process, and a clear stake in the results. In the process, it emphasizes society-to-society exchanges as a complement to more traditional "top-down" government-to-government programs.

4. Measuring Results

The three elements of the reinvented USAID outlined above will give USAID maximum flexibility in delivering assistance to fit the particular development needs of individual countries and regions. It will rely on careful assessments of country and regional conditions and allow for the design of programs that have the highest development return in those sectors where needs are most critical and where host countries, regional institutions, and the U.S. have common interests. It will force host governments and regional institutions to conduct careful self-assessments to choose which areas of USAID involvement are the most critical to achieving sustainable development, and will also force them to look more carefully at their own internal allocation of resources to ensure balance in the development process. By careful coordination with other donor partners, local and international NGOs, and local institutions (including host governments) it will allow each partner to contribute in a coordinated manner to provide the type of assistance that each does best.

Achieving optimal development impact in each of the approaches will require continual assessment of results. The recently-adopted USAID Strategic Framework, which incorporates Results Frameworks for each sustainable development strategic objective, and quantifiable measurements for determining whether real progress is being

achieved, will allow for annual assessments of whether country and regional targets are on track. The Framework, and the Agency Strategic Plan, which will be developed over the next fiscal year, will track progress in reaching the goals of sustainable development and ultimate "graduation". Where progress is proceeding as planned, the approach being utilized will continue; where progress is flagging, the Framework will allow for mid-course corrections, which might include changing strategic objectives in a country or a region or even changing recipient countries from one mode of assistance (i.e., "transition") to another (i.e., "sustainable" or "satellite").

D. New Structures

Under REGO II, existing missions, representative offices and programs will be restructured as follows to reflect the initiatives described above.

1. Sustainable Development Missions and Regional Hubs

USAID currently maintains sustainable development programs in 59 countries, 43 of which are served by full missions and another 16 by representative offices. Under the restructuring, USAID will reduce the number of full sustainable development missions to 25 or fewer (several of which will also serve as hubs for regional programs, see Satellite Programs infra). Representative offices will be replaced by a system of country offices managing satellite programs.

The following criteria will be used for identifying countries where sustainable development programs are appropriate:

- U.S. National Interest (advancing overall U.S. foreign policy objectives, e.g., promoting democracy, advancing economic and trade interests);
- Need (level of development determined by per capita income and various human development indicators);
- Commitment (host government attitude toward democratic forms of government and free-market principles); and
- Results (objective assessment of the results that reasonably can be achieved, with clearly articulated benchmarks reflecting the expected progress within a specified time-frame).

Figure 15

FY 1996 Budget Resolution - 150 Account Discretionary Targets (\$ Billions)

		FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	5 Yr. Total	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
FY 1996 President's Budget	BA	19.8	18.8	17.6	16.8	15.8	17.3	86.3	N/A	N/A	N/A	N/A	N/A
	Outlays	19.8	17.5	16.7	16.5	16.0	15.8	82.5	N/A	N/A	N/A	N/A	N/A
Current Law	BA	18.9	17.9	17.3	17.0	16.5	18.4	87.1	18.5	18.5	N/A	N/A	N/A
	Outlays	18.9	17.5	16.7	16.7	16.5	16.6	84.0	16.8	16.8	N/A	N/A	N/A
House Budget Resolution	BA	18.9	15.8	13.7	11.3	9.7	10.5	60.9	12.0	12.0	N/A	N/A	N/A
	Outlays	18.9	17.0	15.1	13.3	11.5	10.0	66.9	11.1	10.7	N/A	N/A	N/A
Senate Budget Resolution	BA	18.9	15.4	14.3	13.5	12.6	14.1	69.9	14.3	14.2	N/A	N/A	N/A
	Outlays	18.9	16.9	15.1	14.3	13.5	13.1	72.9	13.4	13.3	N/A	N/A	N/A
Congressional Budget Resolution Conference Agreement	BA	20.4	18.3	17.1	15.8	15.1	14.7	81.0	14.7	14.7	N/A	N/A	N/A
	Outlays	21.1	20.7	19.2	17.7	16.5	15.6	89.7	15.5	15.3	N/A	N/A	N/A
Admin. Balanced Budget Plan	BA	20.8	21.2	19.8	19.4	19.0	18.7	98.1	18.2	17.9	17.8	17.8	17.8
	Outlays	21.2	20.9	20.9	20.6	19.9	19.2	101.6	18.6	18.2	17.9	17.8	17.7

These decisions will also be based on cost effectiveness criteria — i.e., whether the cost of operating in a country is commensurate with anticipated program resources and projected results from an integrated program. Poorer countries at early stages of development often benefit most from fully integrated programs focused on sustainable development and thus will receive priority consideration. In selecting sustainable development countries, we will also consider the amount of resources previously committed in a country to ensure that existing investments are considered when measuring potential results.

In selecting which countries will serve as hubs to support satellite programs (and, where appropriate, to support full sustainable development missions in the same region), USAID will consider, among other things, the role a country plays in regional development efforts. When considering whether to place a regional support center in a country with a sustainable development mission, the likelihood that the sustainable development program will beneficially impact other countries in the region will also be a factor. To the maximum extent possible, when regional hubs are based in sustainable development countries, they will use the synergy of the bilateral mission program to impact on common regional problems.

Over the next several years, and in cooperation with the Department of State, USAID will develop this system of

regional support centers to support programs in several parts of the world. In most cases the preferred organizational model will be a hub located within a full sustainable development mission. In some cases, existing regional centers in countries without bilateral sustainable development missions (e.g., Botswana, Ivory Coast, Thailand) will also continue to exist.

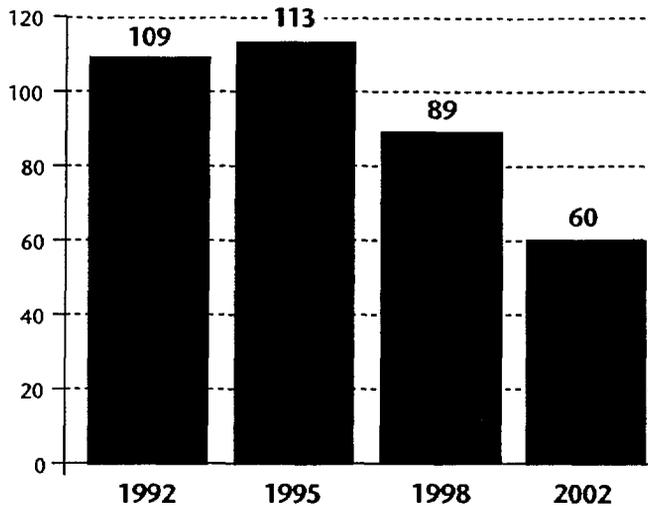
This new approach will provide for continuing work throughout a region on sustainable development, with a smaller level of resources and less intense field presence than is currently possible (See Figure 15).

2. Satellite Programs

Under USAID's new regional approach, issues will be addressed whose solutions are susceptible to a coordinated regional effort (e.g. trade policy, environmental degradation, problems associated with large numbers of refugees). These satellite programs will be backstopped by the regional hubs or from Washington. In some cases, a minimal (no more than five) number of U.S. citizen USAID employees will be assigned to work in the countries where these satellite programs are located. Local or U.S. PVOs would generally be involved in the implementation of these programs.

Figure 16

USAID Country Programs



This new regional approach reflects the fact that key development and political problems spill over national borders:

- economic decline or collapse can affect neighboring economies by disrupting trade or stimulating smuggling; on the other hand, economic prosperity in one country can stimulate prosperity in neighboring countries, both as a demonstration effect and directly through trade and investment.
- the failure of democracy in a key country can encourage anti-democratic forces in neighboring countries to attempt coups and lead to regional instability; on the other hand, the success of democracy in key countries can set an example for other countries and encourage democratic forces there.
- unsustainable population growth feeds migration and the problems that arise from the movement of significant numbers of people (e.g. in East Africa).
- unsustainable exploitation of the environment can quickly become a regional problem with the effects of erosion and soil degradation, and the contamination of water supplies.

USAID may also work in a limited number of countries in which targeted (as opposed to integrated) assistance is

provided in a particular area (e.g. economic growth) to help a country achieve sustainable development, even if the problem being addressed is not part of a specific regional strategy. There also may be instances where assistance would be provided to attack an important global issue (e.g., the containment of epidemics, etc.) in a country where such assistance is not part of a regional effort, but which could beneficially affect U.S. interests. In all of these examples, such satellite programs would be supported by regional support centers, or from Washington.

In most cases, the role of USAID staff assigned to work in countries with satellite programs would be to manage program implementation. To ensure the regional character of such satellite programs, responsibility for the development of strategies, or design of specific activities to carry out those strategies, would be the responsibility of the regional center or Washington. This marks a distinct departure from current practice, in which regional centers normally provide technical advice or design services to field missions, which, in turn, are responsible for designing individual country strategies. This new approach will require an augmentation of program and management personnel in regional centers, but centralizing these personnel will result in substantial cost saving. These changes and USAID's recent experience in regionally-focused programs underpin the new approach for REGO II. It will allow USAID to develop a strategy for working on key regional problems and strengthening the abilities of governments and NGO actors in a region to address these common problems (see Figure 16).

By concentrating on fewer strategic development areas and focussing on regional solutions and the strengthening of regional institutions, the overall development impact will be the deepening of assistance to those areas deemed most critical for regional growth (and concomitant lessening of direct assistance in those areas deemed less critical or which can be handled by other donors or local institutions). It will also likely be a stimulus to more parallel development of countries in a region by promoting uniform policies and solutions to common problems. This will contribute to the lessening of area social and political tensions and increased regional cooperation in dealing with priority areas.

3. Streamlining Washington

The consolidation of overseas programs into fewer sustainable development missions and the reengineering of USAID's processes and procedures will allow a further

streamlining of Washington headquarters. Changes will include the following:

- Regional bureaus will be able to continue downsizing as a greater share of the technical and administrative burden will devolve to new regional centers and the remaining country missions, and as the impact Agency-wide of reengineering is fully felt.
- Global, and other central field support bureaus, also will continue to benefit from reengineering and devolution of authority to the regional centers and the reduction in the numbers of full sustainable development missions.
- Central offices in the Management Bureau and elsewhere will function with fewer staff because of improved and simplified financial, procurement, budget and personnel processes and systems, as well as a lower volume of transactions as a product of less program funds.

The resulting realignment of functions and productivity improvements resulting from the reengineering of processes and improved information systems will permit reducing headquarters direct-hire staff by about 10 percent, or 200-250 people.

E. Expected Savings from REGO II

The second phase of USAID's reinvention efforts under the National Performance Review, once fully implemented, will produce significant savings in the costs of operating USAID.

- Direct-hire U.S. staff would be cut by 350-400 positions from the current on-board level of 2,850. These cuts will be distributed roughly evenly between headquarters and overseas.
- Total staffing, including personal services contractors as well as direct-hire staff, will be reduced by 1,800-2,000 positions, with most non-direct-hire cuts taken overseas.
- Operating expense requirements would fall sharply as a result of the staff cuts; an annual operating expense level about \$125 million below the fiscal year 1996 request level of \$529 million is expected by FY 2002.
- The number of sustainable development missions overseas would fall from the current 43, to 25 or fewer.

Programs would be retained in some of the countries where full missions were shut down; some of these would be run as satellites, with support from regional hubs, while others would be run from headquarters.

The streamlined field and headquarters, by 2002, would manage an annual development assistance program some \$400 million, per year, below the \$2.1 billion requested for fiscal year 1996. Progressive reductions would be taken in program levels in Eastern Europe and the former Soviet Union, with assistance to the region ended by 2002.

While program cuts may begin in fiscal year 1996, the savings in staff and operating expenses will need to be phased in over a longer period. The costs of closing out programs and missions and reducing staff levels are considerable. These costs include severance pay, contract and lease termination costs, and increased transportation and shipping expenses. The effect of streamlining in fiscal year 1996, may well cause a net increase in operating expenses requirements on a temporary basis. Savings would begin to appear in fiscal year 1997, as fewer staff are employed.

III. Countries in Crisis

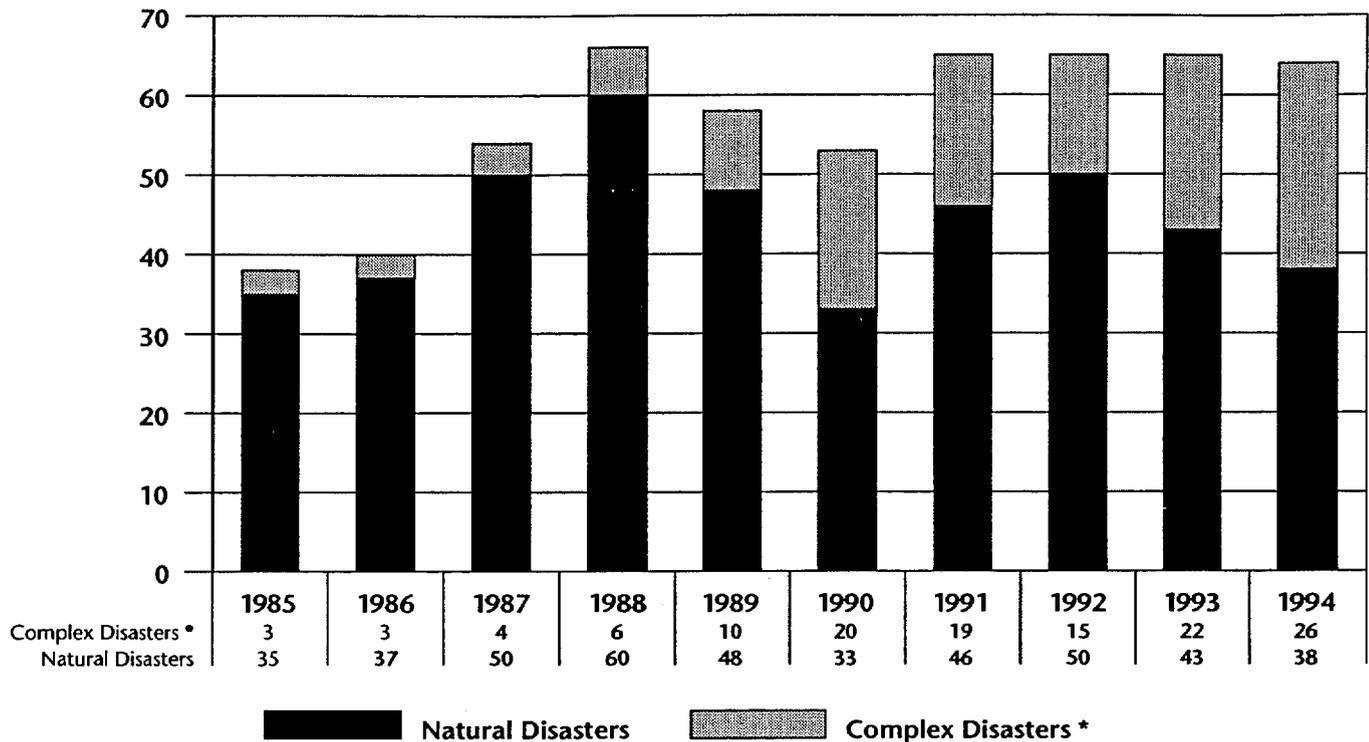
Under REGO II, USAID will maintain its capacity to respond flexibly in support of important foreign policy goals by providing aid to countries in crisis.

Under the Clinton Administration, USAID has begun to focus more resources on crises prevention and the special needs of post-crisis transitions (See Figure 17). Effective crisis prevention requires work on the root causes of crises (for example, poverty, environmental degradation, and unsustainable population growth) and this USAID does with its sustainable development programs. But once countries are approaching the outbreak of civil conflict or war, different approaches are needed. USAID is in the process of developing pilot programs to address imminent crises, including early warning systems, mediation and conflict resolution.

Once a crisis has erupted, USAID is usually the lead aid Agency in organizing and providing international relief for the victims of crisis. But addressing crises cannot end with relief. If an effective recovery is not achieved, countries can lapse back into conflict. In 1994 USAID created a new Office of Transition Initiatives to help with planning, funding and mobilizing other sources of support for effective recovery, including as appropriate demining, demobiliza-

Figure 17

Number of Complex Disasters on the Rise (FY 1985 - FY 1994)



* Includes Civil Strife/Displaced Persons/Emergencies/Expellees/Refugees

tion, training of ex-combatants, and helping to create political institutions necessary to govern a war devastated country. USAID will continue to pioneer work in early warning and the relief to development continuum and to provide global leadership in this area.

IV. Conclusion

Implementation of USAID's second phase of reinvention will further streamline USAID, strengthen management, and position the Agency to support key foreign policy objectives with greatly reduced resources. A smaller number of sustainable development missions, some of which will also act as regional centers supporting discreet programs in other developing countries, will permit USAID to protect its overseas presence, allowing USAID to support America's leadership role and leverage our resources to protect U.S. interests to the greatest degree possible.

Under the second phase of its reinvention plan, USAID's use of the New Partnerships Initiative and other exit strategies, will allow USAID to meet its sustainable development goals and end its programs in a number of countries, and, by strengthening peace and prosperity in those countries, expand opportunities for U.S. trade and investment.