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**DRAFT**

**July 21, 1995**

**CORE REPORT**

**OF THE**

**NEW PARTNERSHIPS INITIATIVE**

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## EXECUTIVE SUMMARY

USAID's New Partnerships Initiative (NPI) was announced by Vice President Albert Gore on March 12, 1995 at the World Summit for Social Development.

The goal of NPI is to stimulate lasting economic, social and political development by building local institutional capacity, thereby accelerating host country "graduation" from U.S. government assistance. Development efforts must work not only to eradicate poverty, but to leave countries with the capacity to sustain their own growth and to become full partners in the global community of free markets and societies. NPI embodies recent advances in development theory -- advances that recognize the critical economic and political role of civil values and of the rich variety of voluntary associations that constitute civil society. **NPI will focus significant resources on strengthening civil society and helping to restructure the relationships between states and civil societies.**

Civil societies are built from the ground up. Communities' understanding of local conditions and their ability to organize and mobilize local residents are vital to sustainable development. It is in local communities that we find organizations that defend human rights, support varied community services, regulate community use of natural resources, structure public policy debate, and facilitate access by the poor to technology, markets and credit.

Civil society thrives in a dynamic and competitive economy and in an open, democratic political environment. At the local level, economic requirements translate into an expanding small business sector that stimulates employment, entrepreneurship, and a spirit of independence and self-help. Democratic local governance provides a political environment that is responsive to local needs, stimulates participation, and can be held accountable to citizens. **NPI focuses on three sets of local institutions--nongovernmental organizations, competitive small businesses, and democratic local governments--that together can significantly enhance the effectiveness of private and public development efforts and can help reduce the distortions and inequities found in closed economies and political systems.**

NPI will use two approaches to advance USAID's existing sustainable development goals: through building grassroots capacity and enhancing national enabling environments.

**Grassroots Capacity Building: NPI is an Agency-wide effort to make local capacity building a central concern in all Agency programs. By focusing on three areas--NGO empowerment, small business partnership and democratic local**

governance--NPI will strengthen the direct contributions of local organizations to development, and will help increase their professionalism, efficiency, accountability, and transparency. USAID also will work to: establish mutually beneficial partnerships among the three sectors; improve cooperation between local organizations and national development programs; and promote the advocacy and watchdog roles of local groups in national politics.

**Enhancing the National Enabling Environment:** In cooperation with our development partners, USAID will work in host countries to provide strong leadership to foster the national policy, regulatory, and resource environments in which private and community action can flourish. A national enabling environment rests on the guarantee of basic human rights, an effective and democratic national government, and sustained growth supported by sound economic policies. Since local organizations are assets to governments in the pursuit of development goals, policy dialogue must include reforms specifically related to enhancing partnerships between civil societies and states.

### **Why Now?**

The dramatic increase in market-oriented democracies has created new opportunities for USAID's sustainable development efforts. In many countries, nongovernmental organizations (NGOs), small businesses and local governments are attempting to fill the gaps created by economic liberalization, downsized national administrations, privatization, and expanded personal and political freedom. If USAID can help empower citizens to take advantage of their new environments, adding their energies to development efforts, there are very real prospects of enabling a new generation of countries to achieve a level of self-reliance that will free them from dependence on foreign aid.

### **How Will it Work?**

NPI includes three phases: (I) participatory conceptualization and design, just concluded; (II) a 12 to 18 month "learning phase" concentrating on (but not limited to) five to seven "Leading Edge Missions;" and (III) an expanded application of the NPI conceptual framework and methodology.

During Phase II, missions--along with their local and U.S. partners--will create and implement country-specific strategies and activities designed to develop grassroots capacity and national enabling environments. These efforts will focus on the empowerment of local NGOs, development of small business partnerships, and democratic local governance. From the beginning of Phase II, USAID will share with its staff and development partners lessons learned in planning and implementing capacity building, as well as developing national enabling environments across each of the three focus areas.

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NPI is a significant departure from "top-down," government-to-government development approaches. It builds on the growing international consensus that development results from investments in people and institutional capacity in a supportive policy environment, and it expands ongoing Agency work in support of civil societies. Since people learn best by doing, the most effective way to support local capacity building is to establish direct links between local organizations and others with similar experiences. NPI will encourage such partnerships.

NPI will begin to structure the relationships the U.S. hopes to continue when countries graduate from U.S. foreign assistance. Under NPI, USAID will support partnerships between local U.S. organizations (NGOs, small business associations, and local governments) and their counterparts in developing countries. These relationships will support current development efforts, contribute to the emergence of self-sufficient local organizations, and provide the basis for long-term cooperation among the partners.

NPI relies on USAID's unique ability to work simultaneously on grassroots capacity building and the national enabling environment. To play these dual roles, USAID will strengthen its relationships with a range of development partners, both in the U.S. and developing countries. These include, for example, U.S. private voluntary organizations (PVOs), U.S. and local NGOs, coops, associations of municipal officials, the business community, universities and community colleges, think tanks, foundations, and other bilateral and multilateral donors.

### **Program Support**

**To accomplish the NPI objectives, field missions will:**

- \* **Assess the host country enabling environment with regard to its effect on the vitality of nongovernmental actors and the potential for local initiatives;**
- \* **Incorporate in the mission policy reform agenda improvements in the enabling environment for grassroots initiatives;**
- \* **Seek opportunities, in all sectors, to work with local nongovernmental actors and local governments in planning and implementing programs; to make grassroots capacity building a specific objective of such programs; and to develop indicators of progress in local capacity development; and**
- \* **Work with other donors to define country-specific capacity building activities and encourage policy reforms.**

**At the central level, USAID/W will:**

- \* Expand the range of U.S. nongovernmental actors engaged in partnerships with developing country counterparts -- creating the structure for post-graduation cooperation;
- \* Develop analytical techniques and consolidate research and experience in local empowerment, especially with regard to the enabling environment;
- \* Work with other donors to facilitate country-level policy dialogue to promote local empowerment and to develop international standards for registration and legal protection of NGOs; and
- \* Work with other donors to develop mechanisms to facilitate South-South cooperation among grassroots organizations and local governments.

**Agency Reforms**

The implementation of NPI depends on fundamental changes in the ways USAID manages development activities--changes that are already underway. USAID's management reforms rest on a recognition of the diversity of conditions in the developing world. Development decisions must be sensitive to circumstances of time, place, and culture. The keys to good management of development activities are decentralized management, responsiveness to local partners, flexibility, and building long-term partnerships. The key is local participation in mission programming activities.

NPI will help to consolidate USAID's recent innovations in results-oriented management. USAID's partners will be fully engaged in the development of performance indicators and in the NPI learning and evaluation process. Through NPI, USAID will strengthen partners' authority to design and implement programs, and will share with them the responsibility for mobilizing resources and accountability for results. All of USAID's partners will be expected to share the Agency's management principles of accountability, transparency and participation.

USAID will focus on managing for results and on enhancing the enabling environment, not on micro-managing programs. USAID's experience with small NGO grants and local development activities is that they are information and staff-intensive. However, under NPI, most of these responsibilities will be transferred to USAID's development partners, by focusing on capacity building of local organizations early in the process and encouraging the development of intermediary organizations that can provide economies of scale. Once the initial start-up tasks (assessments, development of indicators and implementing new management systems) are completed, USAID's direct management role will be reduced, providing considerable cost savings.

To continue streamlining its management procedures, USAID will:

- \* Work to improve USAID's organizational culture to encourage increased grassroots participation and full partnership with nongovernmental actors.
- \* Immediately familiarize USAID staff with recent reforms in grant making, PVO registration procedures, new policy and guidance on the USAID-U.S. PVO partnership; and urge staff to make greater use of existing funding mechanisms that facilitate such partnerships;
- \* Assess and, where needed, reform USAID requirements regarding partnership with local actors;
- \* Establish a USAID ombudsman for nongovernmental actors to help facilitate implementation of management reforms;
- \* Reform obligation procedures, using mechanisms such as block grants, to simplify obligation and reduce the transaction costs; and
- \* Work with other donors to provide consortium and parallel funding of grassroots organizations.

**Next Steps**

This report brings to a close the first phase of NPI. Following review by the Agency's senior management, NPI will move from the initial design process into Phase II--a 12 to 18 month "learning phase" that will focus on activities in five to seven "Leading Edge Missions."

Rather than waiting until the learning phase is complete, "best practices" will be immediately shared throughout the Agency and with external partners. Similarly, steps will be taken to ensure that management reforms emanating from the NPI effort are rapidly embedded in Agency practice. Finally, pending review of the results achieved in Phase II, Phase III will see an expanded application of the NPI conceptual framework and methodology throughout the Agency.

## A. THE POLICY FRAMEWORK

### BACKGROUND

USAID's New Partnerships Initiative (NPI) was announced by Vice President Albert Gore on March 12, 1995 at the World Summit for Social Development in Copenhagen. Following intensive consultations with a broad cross-section of Agency staff and preliminary discussions with a number of external groups, a draft prospectus for the initiative was made public on April 12, 1995. At that time, USAID Deputy Administrator Carol Lancaster announced the formation of a steering committee and three task forces to develop policy and program guidance for the new initiative by mid-July.

The ensuing process of public consultation to help elaborate the initiative has encompassed an array of development partners, including U.S. private voluntary organizations (PVOs), U.S.-based and local nongovernmental organizations (NGOs), coops, associations of municipal officials, the business community, universities, community colleges, think tanks, foundations, and other bilateral and international donors. Staff from all of USAID's central and regional bureaus, as well as a significant number of field staff, have been active participants in the Agency-wide effort to develop the NPI framework.

In order to make the process as broad-based and inclusive as possible, a variety of different venues for public participation were established--direct involvement in the task forces and steering committee, two major public consultations, numerous talks with groups inside and outside the Agency, and the establishment of an electronic network and discussion group, NPI-NET.

Each task force prepared an in-depth analysis of one particular aspect of NPI: NGO Empowerment, Small Business Partnership and Democratic Local Governance. These NPI Focus Reports are a key complement to the NPI Core Report, providing policy guidance, program descriptions, and new management vehicles specific to work in that area. Given the cross-cutting nature of this initiative, special emphasis is placed upon mutually reinforcing relationships among the three components.

The process by which NPI has been developed (detailed in Annex 3) reflects a fundamental principle underlying the initiative itself: the need to both recognize and foster the emergence of a new social compact between government and civil society which underscores shared rights, risks and responsibilities. Government cannot "do it all," nor can private citizens. Both can do far more if they work in partnership.

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## **WHAT IS THE NEW PARTNERSHIPS INITIATIVE?**

The goal of NPI is to stimulate lasting economic, social and political development by building local institutional capacity, thereby accelerating host country "graduation" from U.S. government assistance. This will be accomplished by concentrating disparate Agency activities, and developing new ones, within an integrated framework for local empowerment--using USAID's most cost-effective, flexible, and responsive ways to deliver results. In this context, NPI is:

**\* A results-oriented framework focused on local capacity building**

Sustainable development<sup>1</sup> starts at the local level, where issues are real to citizens. NPI's objective is to equip the people and institutions of the developing world to take full responsibility for their future well-being. NPI seeks to provide local citizens with a legitimate role in the development process, a

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USAID's current programs and policies do not adequately reflect the importance of local participation in achieving sustainable development. Women's contributions to democratic reform and sustainable development at the local level, for example, are under-recognized. To more effectively pursue the Agency's sustainable development objectives, NPI stresses using a greater proportion of Agency resources to strengthen the involvement of grassroots actors--particularly women--in the development process, and to foster dynamic linkages among USAID's varied development partners. Not only is it the "right" thing to do; it makes good development sense.

Within NPI's overarching, integrated framework, USAID can combine its extensive grassroots development experience and recent management reforms with an expanded notion of development partnership. Rather than requiring missions to develop an entirely new set of strategic objectives, NPI provides a cohesive approach for ongoing activities, a range of new programmatic ideas and a set of management vehicles and performance indicators that will enhance the pursuit of missions' strategic objectives (SOs).

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<sup>1</sup> See Strategies for Sustainable Development, U.S. Agency for International Development, March 1994.

- \* **A vehicle to pursue USAID's sustainable development objectives and encourage country graduation**

USAID recognizes that the United States seeks ongoing contacts and linkages with the citizens of the developing world long after U.S. government assistance programs are terminated, and NPI is designed to ensure that these global partnerships are in place and working effectively. NPI builds upon USAID's extensive partnership experience to build cross-border and cross-sectoral linkages. These society-to-society linkages are the basis of a new development partnership that is a far cry from foreign aid models that rely primarily on government-to-government assistance.

NPI's aim is to accelerate this shift in emphasis within USAID to assist in building self-help capacity in host countries with three critical groups: (a) local NGOs that support sustainable development efforts; (b) the expansion of small business partnerships; and (c) democratic local governments. The emphasis is upon building synergies among these components that contribute to strengthened local communities and to civil society more broadly. As a result, USAID will have assisted in developing long-term U.S.-local partnerships.

- \* **A tool to spur USAID management reforms further and faster**

NPI can help build upon and extend the Agency's management reforms. Announcing reforms in Washington is not enough; their impact must be immediately felt by USAID's partners, both in the United States and the field.

One of NPI's first practical contributions in this regard is a statement, "Guidance on Consultation and Avoidance of Unfair Competitive Advantage" (see Annex 5). This draft statement provides guidance on how to engage in consultation and collaboration with our partners and customers. While the statement does not represent new policy, it clarifies what USAID staff can do in order to make it easier for them to engage in consultation and partnership efforts without fear of disqualifying partners from bidding on contracts or receiving grants. Following consultation with USAID's development partners, this guidance will be issued as a General Notice to all USAID staff.

### **WHY NOW?**

Two factors argue forcefully for the adoption at this juncture of a framework of local empowerment. First, the dramatic increase in market-oriented democracies has created new opportunities for the success of USAID's sustainable development efforts. The prospect of "graduating" a new generation of successful countries is now very real if we can empower citizens to take advantage of this new environment--adding their energies to the overall development effort.

Second, USAID is in the midst of "reengineering" the way in which it does business to ensure that progress toward sustainable, measurable results is realized in the most cost effective and timely manner possible. Potentially deep cuts in USAID's budget give these steps added urgency.

### **WITH WHOM AND WHERE WILL USAID WORK?**

NPI is predicated upon a central role for U.S. PVOs, U.S. and local NGOs, coops, universities, community colleges, think tanks, foundations, small businesses, local government officials, and other donors working in partnership with USAID. The initiative is purposefully broadly inclusive in defining the notion of development partners.

Clearly, it is not just a question of who USAID's development partners are, but also how USAID works with them and to what end. Those entities with which USAID will work on NPI will be those that share two important criteria: (1) a willingness to share the risks, responsibilities and rewards of partnership; and (2) a focus on sustainable development through local capacity-building.

NPI is designed to be applicable to all of the countries in which USAID works, spanning different regional settings and countries at varying levels of economic development. NPI is not, however, a one-size-fits-all blueprint for development, nor is it the intention to replicate U.S. models in the field. As the NPI strategy of local empowerment rests on the assumption that the local community best understands local conditions and incentives for change, NPI will be shaped to fit the special requirements of particular regions, individual countries, and/or categories of countries.

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### **WHAT DOES PARTNERSHIP ENTAIL?**

The concept of "partnership" is often invoked, seldom examined, and easily misunderstood. It is not a one-sided relationship, but a two way street--USAID's vision of partnership is not limited simply to making its own procedures more accessible and less burdensome. In an effective partnership, there is both mutual respect and a commitment to a common vision. Each partner brings different--but complementary--skills, experiences, and interests to bear on a common objective, building on areas of comparative advantage.

Central to NPI is an evolution in the relationship between USAID and a wide range of development partners both in terms of the diversity of the actors and the nature of their interaction. NPI builds upon USAID's extensive partnership experience and adds some new dimensions:

- \* Partnership between USAID and those with whom the Agency works: Highlighting management reforms, NPI seeks to build a "better" development partnership that will both facilitate interaction and enhance the impact of USAID's work.
- \* Partnership between U.S. communities and those in field: Highlighting the direct relevance of foreign policy to the everyday concerns of U.S. citizens across the country and underscoring the anachronism of the traditional divide between foreign policy and domestic concerns, NPI seeks to build development partnerships across borders.
- \* Partnership at the local level among NGOs, business, and local officials: Highlighting the potential benefits of joint action at the local level, NPI seeks to build development partnerships across sectors.

NPI is a challenge to the nongovernmental community to share the risks and responsibilities of full partnership with USAID. This is not business as usual. Partners in the initiative will--as is the case elsewhere within USAID--be responsible for their own results-based performance. By the same token, USAID is committed to restructuring its relationship with its partners: engaging them in the definition of performance goals and indicators, and in country and sectoral level planning; strengthening their authority to implement programs; and sharing with them the responsibility for the mobilization of resources and for results achieved.

*NPI is a challenge to the nongovernmental community to share the risks and responsibilities of full partnership with USAID.*

Not only does NPI strive to foster active working partnerships between governments and nongovernmental actors, it also underscores the benefits of cross-sectoral networks of nongovernmental actors (encompassing, for example, the environment, human rights, women's rights, business, labor, and academics) and of cross-border networks of nongovernmental actors. It signals the involvement of a broad community of actors in the common pursuit of sustainable, tangible development results.

One of the challenges inherent in such a partnership is the achievement of the right mixture of collaboration and independence between the public and private spheres. Nongovernmental actors must decide for themselves the appropriate degree of autonomy they require from government. A healthy degree of separation between the two is essential to the integrity of each, but cooperation is also critical to the vitality of both. This balance--at the heart of the USAID's partnerships--can be constructive and mutually beneficial if respect for the principles of privateness and independence are combined with clear, results-oriented standards of accountability in the joint pursuit of agreed upon objectives. NPI is designed not only to recognize

and foster the important development role played by nongovernmental actors in society, but to demonstrate to both governments and the nongovernmental sector how to work together more effectively.

In sum, public and private actors are in the process of a fundamental restructuring of their relationship and are reassessing the costs and benefits of joint action. There is an emerging consensus that more can be accomplished through cooperation. NPI underscores the point that nongovernmental actors are a necessary, valuable and legitimate partner to government both in terms of service delivery and in the promotion of a healthy civil society. In this regard, cooperation, not competition, is key. It is in the interest of governments to complement, foster, and enhance the impact of the enormous energy, creativity, and dedication of the nongovernmental community. At the same time, nongovernmental actors bear a responsibility to move their organizations toward the same accountability, transparency and participatory structures that they demand of their government counterparts.

#### **HOW DOES NPI RELATE TO OTHER ONGOING AGENCY ACTIVITIES?**

NPI grows out of and is closely linked to a number of ongoing Agency activities, particularly USAID's reform efforts under the National Performance Review. A number of these efforts, and their relationship to NPI, are discussed below.

##### **Reengineering**

USAID has committed itself to radical reform of its operating systems and processes through organizational reengineering. The core values guiding USAID'S reengineering efforts are: customer focus; results orientation; teamwork and participation; and empowerment and accountability. Comprehensive, wide-ranging changes in the way USAID does business are intended to produce more efficient and sustainable development results, and to allow the Agency the flexibility to respond to rapidly changing development circumstances.

The development hypothesis underlying USAID's reengineering effort is that a more empowered staff, following streamlined procedures, collaborating with customers and partners to identify the former's needs and priorities, and complementing each other's views and skills through good teamwork, will be better able to listen, to learn, to innovate, and hence to achieve better, more sustainable development results.

Under NPI, collaboration between USAID and local communities is premised on the empowerment of all parties to decide and act, as well as to accept accountability for development results. NPI's emphasis on customers and participation is underscored by the systematic involvement of development partners in the implementation of activities as well as in determining the demand for development services by USAID's ultimate customers--the socially and economically

disadvantaged people in countries receiving U.S. foreign assistance. Through the partnerships envisaged by NPI, USAID will broaden and deepen its relationships with its ultimate customers and will involve them more extensively in defining and carrying out development activities.

### **Participation Initiative**

NPI also is a direct outgrowth of the Administration's commitment to "putting people first." The NPI framework emphasizes a participatory approach to development and highlights the importance of the deepening involvement of a broad range of stakeholders, particularly women. In this regard, it is closely linked to USAID's Participation Initiative.<sup>2</sup> As stated by USAID Administrator J. Brian Atwood, "...development assistance works best when it contributes to efforts that people in the recipient society are already attempting to carry out," emphasizing that USAID must "...strengthen the capacity of the poor to take the next steps in their own and their community's development."

While the Participation Initiative deals with the attitudes and systems with which USAID staff approach their work, NPI commits the Agency to program its activities in a way that reflects this commitment--in particular to dedicate significant resources and attention to local citizens and their ability to serve as development catalysts.

### **USAID/U.S. PVO Partnership Policy Guidance**

NPI reflects the values underscored in the recently issued policy guidance on the USAID-U.S. PVO partnership, which articulates the Agency's renewed commitment to a partnership relationship with U.S. PVOs and community development organizations (CDOs), and provides practical guidance for making that commitment operational.<sup>3</sup> It includes guidance on consultation, participation, program integration and managing for results, independence, support for relationships with local counterparts, capacity building, cost sharing, and administrative simplification. The policy guidance stresses transparent, open communication and the participation of partners and stakeholders at all levels and stages of the development process.

### **CDIE Studies**

NPI also is informed by two recent Agency studies. The first, which examines USAID's management relationship with U.S. PVOs and local NGOs, is entitled

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<sup>2</sup> Atwood, J. Brian. "Statement of Principles on Participatory Development," November 16, 1993, pp. 5.

<sup>3</sup> Similar guidance will be forthcoming with regards to USAID's relationship with the higher education community.

"Strengthening the Public-Private Partnership: An Assessment of USAID's Management of PVO and NGO Activities." The second CDIE study explores approaches to the development of civil societies, and is entitled "Constituencies for Reform: Strategic Approaches for Donor-Supported Civic Advocacy Programs."

## **B. THE DEVELOPMENT RATIONALE**

Amid growing demands for improved government efficiency, a much-needed reallocation of the relative division of labor between public and private actors is underway. NPI builds upon a new notion of partnership between government and civil society.

"Civil society" emphasizes the importance of a public arena that transcends private interest and mediates between the market and the state. It is an arena that embodies basic principles of open dialogue on public affairs, individual rights, voluntarism, and a sense of public responsibility. In the process of sustainable development, an efficient civil society is as important as efficient markets or good governance. Civil society organizes political participation and collective action in the same way that markets organize economic behavior. Like markets, civil society can function more or less effectively depending on government policies, the cultural values of the society, and levels of technology and infrastructure.

### **1. Strengthening Local Capacity:**

#### **Developing Social Capital:**

The central concept of NPI is social or institutional capital. The concept of social capital is of growing importance in both the political development and institutional economics literature. It refers to the capacity of society to organize in diverse and efficient ways to undertake development tasks. It is rooted in a common understanding of the tasks to be performed, and in rules of behavior that increase predictability both of the behavior of others and of outcomes. Thus, social capital builds on experience, success, trust, and the rule of law (formal or informal). Like other forms of capital, social capital does not occur naturally nor is it a free good. Local organizational capacity takes time, resources and ingenuity to produce and maintain, but it is an investment with high payoff.

Local communities have considerable potential for local problem solving and institutional adaptation, when empowered to do so. Although they may lack technical knowledge or resources, they have experience in working together which, added to their knowledge of local conditions, is a considerable resource. Authoritarianism and an expansive bureaucratic state frequently combine to distort institutional development -- crowding out voluntary local organizations, forcing

entrepreneurs either into the informal sector or into rent seeking activities, increasing the political risk of local initiative. Where this happens, civil society atrophies.

Even in favorable policy environments, however, local organizations do not automatically respond to development opportunities. Ethnic conflicts, historic mistrust of the public (or private) sector, and severe class divisions can create conditions in which trust, broad-based participation and cooperation are difficult. Organization is based on resources, leadership, communication, and clearly defined common interests, often requiring substantial time and effort on the part of citizens. Individuals thus weigh their participation on the basis of costs, benefits and risks involved. While these factors can vary enormously between groups, women and the poor are typically more universally disadvantaged.

Time, Place and Scale in Development:

Development problems differ greatly from place to place as do the resources for dealing with them. Equally, problems differ in scale and in their sensitivity to the timing of interventions. A poor hinterland with rapid out-migration of the young workforce has very different problems than the urban center to which they migrate. The problems of managing community grazing land are very different from the difficulties of managing a regional aquifer on which the community's farms depend. Medical care, police protection, and the delivery of agricultural inputs are very sensitive to good timing.

Because of these differences, the effectiveness of development efforts declines rapidly when they are designed as blueprints which are administered rigidly and in ignorance of local conditions. Experience suggests that institutional arrangements should be shaped to the characteristics of the problem. Those closest to the problem have the advantage of better information, strong incentives for assuring good performance, and lower transaction costs in bringing resources to bear. The development of social capital involves expanding the diversity and richness of institutional arrangements to address this diversity of local conditions. It requires the capacity to identify and consult all the stakeholders, particularly those groups whose contributions to community-level welfare are under-recognized or constrained because of socioeconomic biases. It demands matching the scale and structure of organizations to this diversity.

Local organizations also tap different sets of incentives and institutional norms in addressing local problems. Profit motives and price signals, public regulations and authority, and relationships of trust and reciprocity are all important institutional principles. Local institutions tend to combine these principles in creative ways. Effective water user associations, for example, work best when water is properly priced, clear rules and standards are ultimately enforceable by the Water Department, but management and monitoring is in community hands and governed



by community norms. NPI focuses on the contribution and interactions of the public sector, the market, and the voluntary sector in providing the necessary institutional diversity.

#### Resource Mobilization:

Development practitioners have continually been surprised by the volume of resources available for development in even the poorest communities. Rural credit schemes, properly designed, have demonstrated the availability of savings. Land and labor is frequently forthcoming for the right project. Entrepreneurial and management talent is far more prevalent than anticipated. In development practice, the difficulty has been one of mobilizing and integrating these resources with government and donor efforts.

The requisite for local resource mobilization is that the activity address a clearly identified local problem in which the population has a stake. Management of the activity must be transparent and subject to the control of the affected population. Above all, authority, responsibility, and accountability must be combined locally. This arrangement combines ownership, full participation in decision-making by women and men, incentives, and the predictability of outcomes necessary for community participation.

#### Cost Efficiencies and Developmental Impact:

In a time of budget austerity, NPI provides management savings and increased development impact by working in partnership with nongovernmental actors. To attain these savings, however, USAID's organizational culture must change.

USAID must combine "management by exception" and "management for results." Operationally, that means that USAID focuses its attention on analysis and assessment to identify local conditions and problems, specification of objectives, and the development and monitoring of performance indicators. Day-to-day management and responsibility for results rests with our partners. USAID should not micro-manage and should intervene only in exceptional circumstances.

There will be start up costs to developing assessment methodology and performance indicators, but even that should be a shared task with partners. There will also be a learning period as the new procurement mechanisms and management procedures are put in place. Start-up costs and time will vary from mission to mission depending on the nature of the mission portfolio and the strength of local organizations, but if there is not a net reduction fairly quickly, reengineering will have failed.

Local organizations can tap local resources, especially human and institutional capital. Their investment decisions are better informed and performance is better monitored through local participation. The management costs of local organizations

are considerably lower than alternative vehicles for delivering services and managing infrastructure. This, in turn, permits U.S. assistance to leverage local energies and initiative.

The relationships put in place by NPI will be the basis for sustaining development beyond graduation. U.S. nongovernmental partners--tapping into a wide range of practical experience--provide a flexible and low cost management structure, the ability to relate to local actors on the basis of common interests and perspectives. The NPI strategy also emphasizes the development of local intermediary organizations that can service grassroots organizations and provide economies of scale. Most important, these international partnerships build for the future. Today, problems, as well as technical and institutional solutions, move rapidly across borders.

USAID's major operational responsibility under NPI will be policy dialogue on the enabling environment and managing program analysis and evaluation. Both of these tasks require a high level of professional skill and intense interaction with both the local government and local partners. Local participation in USAID activities is a labor-intensive--but indispensable--aspect of NPI.

## **2. The Strategy:**

The NPI strategy requires interventions at three levels:

- ▶ **Grassroots capacity building:** NPI will work to build self-help capacity in three critical areas (NGOs, small business, and local governance) and to expand the voice of citizens in public affairs.
- ▶ **Improving the enabling environment:** NPI will work with other donors, local reform groups, and the host government to bring about significant improvements in the enabling environment to encourage local development initiatives.
- ▶ **Expanded linkages and development partnerships:** NPI will work to create a network of partnerships between developing country and U.S. nongovernmental actors that can sustain long-term cooperation in solving both local and global problems.

### **(a) Grassroots Capacity Building:**

Complemented by improvements in the national enabling environment, these efforts together strengthen civil society, the economy and governance at the grassroots.

**NGO Empowerment:**

NGOs are defined broadly as private and voluntary organizations that contribute to development, either through delivery of services, advocacy, or direct economic activities. In the process of sustainable development, an effective and efficient civil society is as important as effective and efficient markets. The institutions of civil society organize both political participation and economic activity. Like the firm, which is a non-market institution interacting with markets, NGOs can play a vital economic role. NGOs have been highly effective in technology transfer and institutional innovation. In consequence, they are often an efficient alternative to government bureaucracy for the delivery of both social and economic services--to citizens, businesses, and the government administration itself.

Nongovernmental actors also offer a viable alternative to government in areas where public participation is essential--areas such as neighborhood associations, PTAs, water user associations, or special districts. In civil education, NGOs are commonly far more effective than public agencies. In contrast with either private or public service agencies, NGOs are uniquely positioned to play both a public information and advocacy role. They are central to a demand driven strategy of policy reform. However, this synergy can only be effective in a context of decentralization of authority and democratization of citizen participation. Sustainable development is most likely to occur where both civil society and markets are free and open to broad-based participation.

**Small Business Partnership:**

Small businesses are defined as firms that employ between five and one hundred employees, a range that reflects the need to encompass diverse country settings. Small businesses make an important contribution to real incomes, economic growth, and equity in developing countries. They tend to be in sectors that use labor-intensive production techniques, which reduces entry costs into the market and tolerates a less-skilled labor force. They are particularly important in underdeveloped economies where high information costs and fragmented markets favor firms with an intimate knowledge of local conditions and clientele that can use this information to produce and market for local needs. Finally, the flow of entrepreneurs emerging from a vigorous small business sector can greatly add to the economy's overall flexibility and growth potential.

Small businesses foster a culture of individual initiative and responsibility. A large entrepreneurial class produces a large class of self-reliant, independent citizens that will guard their freedom. Recent experience in developing countries indicates that the growth of small businesses in the economy is closely correlated with the growth of effective democracy. Bringing the business community into active participation in the political and associational life of the community is a critical goal of a civil society program.

The markets and politics of many developing countries have been plagued with rent seeking by powerful elites, entrenched in state enterprises or favored large firms. The net result has typically been to limit competition and distort public policy, resulting in growing inefficiency and widespread corruption of the regulatory process. In contrast, small businesses are, almost by definition, numerous and competitive. To influence government policy, they must organize and enter the public policy debate. In consequence, the expansion of the small business sector and their political mobilization tends to transform the political economy.

Democratic Local Governance:

Democratic local governance is defined here as the process of bringing democratic principles into the conduct of sub-national governance activities. For strategic reasons, NPI will focus on municipal governments. Democracy is the most reliable way we have for addressing collective issues, as its inherent inclusiveness gives it sustainability. Through deliberation and advocacy, citizens manifest their individual concerns as well as their perception of the broad public good. Through electoral mechanisms they legitimize state policy. Through civil society they tell the state how they wish their *public* concerns addressed, or may take upon themselves to act to directly address others.

NPI seeks to develop democratic local governance, not as a substitute for national government but as a key complement of a national development strategy. Democratic citizenship is learned best and most effectively when citizens address pressing, immediate issues -- jobs, housing, street safety, clean air and water. Strong local governments both motivate and facilitate citizen participation, especially by the poor and marginal groups who find the organizational costs of national politics prohibitive. The cost of developing a credible alternative to the current government are reduced, providing a safety valve for political opposition.

Strong and democratic local government empowers those most familiar with the problem and with the strongest incentives for efficient remedies to take the initiative. Rent seeking and corruption is reduced, maintenance and sustainability of investments is improved, investments are allocated more efficiently. Democratic local governance promotes and protects women's rights, their full participation in all levels of decision-making and equal access to related resources. To accomplish this, citizens require rule of law accessible at the local level, with relevant and non-discriminatory rules devised and adjudicated locally. All key stakeholders must be included in the governance unit (city, county, water district, etc.). This implies that a viable system of democratic local governance must include not only general purpose governments (e.g. municipal government), but also a capacity to create new special purpose authorities at various levels that can bring program costs and benefits under the control of the affected population.

(b) Enabling Environment:

The capacity for local initiative--entrepreneurial, voluntary, or local governance--requires a supportive national environment to flourish. Undoubtedly, the local community will always find a way to cope, but unleashing the full development potential of the community and channeling it in productive directions depends on a positive environment.

Civil society does not operate in a vacuum--it operates under the political conditions set by the national government. Without a minimal level of basic human rights, individual security, free participation and association, security of property rights for men and women, and open public debate, local empowerment is an illusion. Further, civil society will be most effective in the context of national democratic institutions that assure political competition, rule of law, and transparent and accountable administration. Finally, sound economic policies and the reorientation of the state's economic role create space and price signals that induce efficient choices at the local level.

Within this generic set of enabling conditions, however, each of the three components of NPI has its own requirements.

NGO empowerment rests on fundamental rights of association, as well as freedom of the press and expression. The economic functions of NGOs are also heavily influenced by the general economic climate. However, NGOs require a specialized and differentiated (by sector and function) regulatory structure to thrive. This may include special tax codes, registration and incorporation laws, liability rules, codes of conduct and management.

Small business partnership requires a strong macro-policy environment that stimulates growth, stable government stability, and a competitive market structure. A transparent and efficient rule of law is also essential to enforce contracts. More specifically, the small business sector is significantly affected by a competitive and efficient banking system, labor regulations, sectoral policies, land use and zoning regulations, transaction costs in dealing with government, and licensing and permit arrangements that inhibit entry and competition in a sector.

Democratic local governance requires the establishment of democratic institutions of political competition, rule of law, public accountability, transparency and open public debate, and the protection of minority rights characteristic of national democracy. Empowerment of local authorities requires above all a level of fiscal independence, combined with administrative and regulatory authority for assigned functions. The constitutional structure of local authorities must permit diversity, and innovation in institutional arrangements. Further, local authorities require supporting services and performance standards from higher authorities.

The components of an NPI policy agenda differ greatly among the three sectors. They are also scattered widely among different national ministries. It is

unlikely that traditional, top-down reform, induced by donors, will be effective. Rather, it is the strategy of NPI to stimulate "demand driven" reform led by local actors. Local empowerment must emerge from the domestic political process, highlighting the importance of a viable national democracy. The strategy also suggests that emphasis be given in local capacity building to developing vertical and horizontal associations of key actors and advocacy groups that can project local problems and pressures for reform onto the national agenda.

The success of local empowerment also requires a thorough reorientation of the central bureaucracy to make it more transparent and accountable to citizens. The bureaucracy needs to shift from a control orientation to a partnership with civil society--providing space for local initiative as well as support services for local government and service NGOs. While bureaucratic reorientation will not be a significant focus of NPI, the international banks are already actively engaged in the modernization of the state in a context of decentralization and increased participation. NPI's strategy will be to coordinate USAID's local empowerment and policy reform efforts with multilateral governance activities.

**(c) Linkages and Partnerships:**

As the role of the state, of civil society and of the local community is redefined, the institutional arrangements for a new partnership need to be defined and put in place. NPI will place considerable emphasis on the development of national and intermediate associations of local groups--mayors, business groups, advocacy and civic groups, service organizations, and functional groups (e.g. water associations). The argument is that these aggregates of local groups are essential to project local interests into national policy debates, providing both pressure for reform and a partner for dialogue. Further, these groups are critical as "wholesale" intermediaries for the provision to individual organizations of technical assistance and information.

International partnerships and linkages are also important to NPI. Institutional and technical innovation is central to dynamic and sustained development. The motivation, initiative, resources, and demand for change must all be generated locally. But new ideas (technical and institutional) come as often from another region, city, or country as from the locality in question. It stands to reason that those who have successfully tackled a development problem elsewhere will have something to share with those just starting.

This argument does not in any way underestimate the enormous entrepreneurial task of recognizing and specifying the local problem, searching for new ideas, and adapting them to local conditions. Quite the contrary, NPI focuses on empowering local development entrepreneurs (in business, NGOs and local government) in all three sectors to search for new solutions to local problems. But NPI will also further empower those development entrepreneurs by integrating them into networks of information and support--internationally.

## C. THE NPI PROGRAM

This section elaborates the three central program components of NPI--NGO Empowerment, Small Business Partnership, and Democratic Local Governance--in terms of activities at both the mission and USAID/W levels. In addition, the section discusses the cross-sectoral linkages which give NPI its integrative power.

### \* NGO EMPOWERMENT

The program which USAID and its PVO partners will pursue builds on the new USAID/PVO Partnerships Policy and on activities already underway in several missions while integrating NGO development efforts more systematically with other NPI components.

The focus of this effort must be the field. NPI will not succeed unless missions see NGO empowerment as the most efficacious way to achieve USAID's sustainable development objectives and begin to adjust the way they implement their programs accordingly. To facilitate the successful implementation of the NGO empowerment component of NPI, USAID/W will put in place a number of support instruments. While much can be accomplished through rigorous application of current Agency reform processes--especially as envisioned under reengineering--modest additional resources will be required to bring the NGO empowerment component to fruition.

#### Field Activities:

Working with host governments, local NGOs, U.S. and other international PVOs, and other donors, USAID missions will:

- \* Assess on a regular basis the legal, regulatory and economic environment for NGO empowerment and assist recipient countries to create a favorable enabling environment, taking full account of local conditions.

- \* Pursue opportunities to support the development of local NGOs. In many cases, particularly in child survival, microenterprise, family planning and other service delivery programs, missions do utilize PVOs or even local NGOs as service providers, but do not necessarily seek to enhance local capacity or sustainability of local partners. Where appropriate, USAID will incorporate into procurement and assistance documents provisions requiring implementers to strengthen the institutional capacity of local NGOs. This, in turn, will be a principal criterion for judging performance.

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\* Actively involve PVOs and local NGOs in formulating strategic objectives for the U.S. development assistance program. USAID strategy documents will be approved only if they clearly reflect PVO and NGO participation. Missions will also explore opportunities for involving PVOs and NGOs as full partners in program design and implementation, and report on progress in this area in missions' program design and implementation documents.

\* Use their training and exchange programs to train local NGO leaders. This could take place at both the local and regional levels and in some cases, might involve bringing participants to the U.S. to learn from U.S. PVOs and NGOs. Training areas would include technical skills, planning, management and evaluation, and communications and advocacy. This is part of a broader effort to improve local infrastructure to support NGO empowerment and involves training facilities, media for networking and communication, and encouraging host government measures such as creation of an NGO ombudsman post.

**USAID Central Programs:**

Working with PVOs and other donors, USAID/W will:

\* Become a center for analyzing the role of NGOs in development, relying on a small professional staff dedicated to NPI using modest funding, to devise reliable measures of NGO empowerment (e.g. institutional capacity indicators). USAID will also develop "rapid assessment" and other techniques for evaluating the local nongovernmental community and enabling environment for NGO empowerment, and comparative materials on steps taken by developing countries to ensure a favorable enabling environment and how this contributes to sustainable development. Materials will be widely disseminated. The Agency will seek multilateral sponsorship for publication.

\* Help foster a positive enabling environment by developing illustrative "partnership models" for governments and NGOs to use to overcome mutual mistrust which often characterizes their relations and together build a more cooperative working relationship. These models will demonstrate the positive effects of a clear understanding of roles and responsibilities.

\* Work toward an international standard for local NGO registration requirements in developing countries, the goal of which will be a simple, inexpensive, time-efficient standard.

\* Support or, if necessary, create entities to identify non-traditional NGOs in the U.S. which are interested and able to help strengthen NGOs overseas and which can facilitate South-South dialogue and the exchange of ideas among NGOs. Over time, these respective entities might facilitate capacity building of non-traditional U.S. and local NGOs.



\* Expand its donor coordination capacity with respect to work on NGO empowerment. USAID will seek the support of other donors and the multilateral institutions in work on the NGO enabling environment, partnership models, and the institution to support South-South NGO interaction.

\* Examine its existing portfolio to see how, through the current central grants program, to employ U.S. PVO partners more effectively to develop local capacity.

**\* SMALL BUSINESS PARTNERSHIP**

The Small Business Partnership component of NPI will build on donor experience and the wide range of current Agency activities that relate to small businesses and the business environment. The Small Business Partnership will build on macroeconomic reform efforts by working to identify and help remedy policy and regulatory distortions that particularly constrain small businesses and to bring NGOs, business associations, local governments and policy institutes into the reform process. The initiative will seek to create new links between developing country and U.S. business associations to promote the transfer of technology, information, skills and other resources necessary to expand the role of small businesses in the development process.

The Partnership will focus on capacity building at the country level to provide citizens with the ability to represent their interests before national and local rule-making bodies, accelerating the demand for policy reform. The ability to press for change requires that local groups build new relationships among private groups that do not rely on donor funds and that accelerate the flow of information necessary to support change. For example, global networking can speed the spread of information on markets, technology, and best practice, lowering the cost of capacity building. It can also result in self-sustaining, private-to-private relationships that need not go through the filter of governments that now provide the assistance. Increased involvement of a broad range of developing and U.S. nongovernmental actors with relevant knowledge and skills (e.g., cooperatives, universities, business associations, PVOs) will be a key focus of the Partnership.

Policy guidance on small business development within USAID needs to be strengthened. To be successful the initiative requires that Agency policies reflect strong support for small business as a key component of USAID's development strategy. The March 1994, "Encouraging Broad Based Economic Growth" needs to be revised and reissued with a focus on small business and building on the work of the microenterprise.

While there is no current "small business program" in USAID, there are hundreds of projects in the sector, including a dramatic expansion in the ENI region. Other donors have similar programs. The conceptual framework for small business development is well established and its lessons evident. With clear guidance the Agency should be able to move fairly quickly to a focused small business program of considerable impact. A long-term strategy is suggested, including revision of policy/

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strategy statements, a PPC/CDIE led sector-specific impact analysis (especially in ENI), country-specific sector reviews as part of the budget process, further reengineering of the USAID-nongovernmental sector relationship and the continuation of the current NPI Steering Committee/Working Group structure to champion the process.

**New programming ideas include, inter alia, 1) a capacity building initiative aimed at increasing the effectiveness and scope of business associations, think tanks, universities, and other groups promoting market oriented advocacy roles; 2) a model women's business/political/volunteer network; 3) expanded use of credit guaranty authority to promote commercial efforts to stimulate a competitive private banking system; 4) a multi-country small business environment ranking report; 5) a mechanism to expand NGO support to small business; and 6) expansion of existing experiments in health, population, agriculture and environment sectors to encourage small business activity and links to NGOs.**

To obtain the increased impact and efficiency sought by NPI, USAID has to adopt the mechanisms necessary to link the three NPI components. Capacity building, information sharing, common clients, and other areas hold much promise. For example, capacity building in business associations should be linked with any local democracy program or program to build participation and policy advocacy.

A system for evaluation and feedback already exists in USAID, but a special effort to build on that system is suggested. Performance indicators are currently being developed for democracy, economic growth and other programs, and the Agency should take advantage at this early stage in their development to build in NPI indicators. This will be a challenge as NPI indicators are cross-cutting in nature.

#### **\* DEMOCRATIC LOCAL GOVERNANCE**

To be successful, democratic local governance must develop on two discrete levels: the national government must create laws and policies that empower localities to practice self-governance; and local actors--government officials, NGO leaders, and entrepreneurs--must acquire the requisite skills, institutional capacity, and material resources to exercise the political authority granted, or otherwise not assumed, by the national government. In the specific context of democratic local governance, the first level refers to the "enabling environment" and the second level to "capacity building." USAID's NPI programs, therefore, should offer assistance for both the enabling environment and capacity building simultaneously, while recognizing the iterative nature of the reform process.

In terms of the enabling environment, USAID programs will vary according to the particular political conditions of the targeted country. Two general approaches, "top-down" and "bottom-up", illustrate opposite extremes. Actual USAID country experience should fall somewhere in between, with elements of both approaches incorporated in an overall strategy.

**A top-down approach is appropriate to countries that have experienced a democratic transition at the level of the national government, but that have limited or no experience of democracy at the local level. In such countries, USAID can coordinate with other international donors in initiating a policy dialogue with the national government. The policy dialogue will allow for a discussion of the merits of and avenues for deepening democracy by spreading its practice to localities.**

**In contrast, a bottom-up approach applies to countries that have not yet experienced a democratic transition at the national level. By pursuing such an approach, donors would attempt to create the demand for democratic local governance. Such an approach would entail the following steps: identification of reformist government officials and NGOs at the local level; design and implementation by these reformers of modest pilot projects in democratic local governance; and the forging of nationwide political alliances (such as associations of mayors or civil society organizations interested in decentralization) to bring reformist pressure to bear on the national government.**

**Once the national government has become truly committed to supporting a policy of democratic local governance, USAID's focus should shift to assisting the national government in creating the laws and policies necessary for the devolution of political power to the local level. Specific efforts might assist with revision of the national constitution, passage of new legislation, formulation of new policy, or the establishment of new forms of taxation. The underlying purpose of all these measures would be twofold: 1) to institutionalize the transfer of political power, and 2) to ensure that the transferred power is exercised in a democratic way.**

**Apart from supporting a conducive enabling environment, USAID's NPI programs would also concentrate on capacity building. This would ensure that local governments, NGOs, and small businesses could effectively participate in democratic local governance. The following are some of the types of programs directed at this goal:**

**First, USAID could provide assistance to local government officials in order to increase their ability to conduct the myriad tasks of local government. Such assistance would pertain not only to the technical aspects of providing social services, but also to the political aspects of collaborating closely with the citizenry, with particular attention to those not traditionally included in the decisionmaking process, in determining the nature of those services. In the latter regard, USAID can catalogue "best practices" of formal collaborative mechanisms consisting of representatives from local government, civil society, and the private sector. This assistance can also include identifying existing and underutilized local authority for revenue generation and service provision, and discretionary powers to engage citizens in participatory processes.**

**Second, USAID can assist NGOs in acting as representatives of the citizenry to local government officials or in providing the citizenry with relevant information**

about how to participate more actively in the decisionmaking process (i.e. a civic education component). Alternatively, USAID can support NGOs and local media in ensuring that local government is accountable and transparent, or in providing appropriate technical assistance.

Third, USAID can help nongovernmental actors provide an alternative source of social services at the local level. However, caution must be exercised in this respect not to substitute NGOs for the provision of services that are the responsibility of local government (e.g., road maintenance, primary health care, land tenure recordkeeping, etc.). Many NGOs simply do not have the capacity to deliver such services and therefore their failure may ironically result in the contraction of civil society organizations from the political process.

Fourth, central governments also have "capacity building" needs in a new era of decentralized political and service delivery authority. The process and roles of intergovernmental relationships, responsive channels to address local issues of national import, and the need for reliable and transparent resource transfers require that national governments perform in a new and different manner. Failure to assure central government capacity to fulfill these responsibilities may doom the entire decentralization effort.

Finally, there are linkages between the capacity building needs of local governments and the ability of central governments to meet those needs. Local governments, for example, require access to technical, financial and information services. Also, local level political actors often are linked to national political parties and appeals from local level dispute resolution mechanisms are addressed at national levels.

With respect to promoting synergies across the NPI components, USAID should encourage local small businesses to advocate for a hospitable economic and regulatory environment. In a like manner as civil society organizations, small businesses need to participate in decisionmaking about community infrastructure and can be candidates for privatization of municipal services. NGOs, meanwhile, play an important role in facilitating communication between local governments and their citizens, and in educating citizens as to their rights and responsibilities.

In summary, the program elements of the democratic local governance component of the NPI include:

- policy dialogue with the national government on legal and fiscal reform;
- pilot programs at the local level with officials committed to political, economic and social reforms;
- assistance with the establishment of associations of local officials, which pushing for reform at the national level;

- support for specific legal and institutional reform efforts at the national level;
- direct training for local officials and nongovernmental leaders to provide them with skills that facilitate openness, transparency and accountability between local governments and NGOs, the private sector and the general public; and
- development of sector-to-sector linkages among local government officials and nongovernmental actors focusing on local level decisionmaking processes.

### CROSS-CUTTING PROGRAMS

The three components of NPI were selected because in combination they form the basis for a dynamic civil society at both the local and national level. In the abstract they represent three distinct principles of social organization--voluntary associations, market oriented for-profit firms, and the local organization of public authority. In practice, development depends on effective partnerships among the three.

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#### Cross-sectoral linkages at the local level:

Each of the three NPI components makes a specific contribution to local empowerment, which in turn reinforces the other two. Local authorities, for example, establish the legal and regulatory environment upon which small business and local NGOs commonly depend. Land use patterns, permits, court systems, police protection, infrastructure development, public utilities, regulatory standards and tax systems all impact directly on both NGO functions and small business. Part of the reason for devolving these functions to democratic local governance is to assure that they are performed in partnership with local civil society, informed by local needs, and benefit from strong local support.

For their part, small businesses can play a crucial role in transforming the political economy of developing countries. As a large and highly competitive sector, the interests of the small business community are fundamentally at odds with the pattern of privileged access and restricted competition characteristic of closed economies. Further, small businesses must organize to affect public policy and the act of organizing brings them into a public political process. Thriving local business, in the formal sector, also supports local NGOs and government by providing a financial base--as well as entrepreneurial talent, management skills, and leadership.

Similarly, the NGO community plays a critical role in the provision of social services, often in partnership with both government and the business community. NGOs are particularly effective in extending services to poor and marginal communities and in bringing such groups into the mainstream of economic and political life. Through organization, they compensate for the individual political and economic weaknesses of the poor. Equally important, NGOs provide a mechanism for both businesses and local authorities to pursue common interests that cannot be attained individually or through official channels. In this capacity they play a critical role in policy advocacy, program advice, and as watchdogs. Aggregating at higher levels, they can project the needs and power of local groups into national policy and politics.

#### Hybrid Institutions:

There are some very effective local institutions that combine the organizing principles of all three types of institutions. Cooperatives, for example, combine many of the principles of commercial marketing and financial institutions with the management and non-commercial services characteristic of NGOs. Special tax districts combine public tax authority with voluntary agreements among citizens and local business to provide (finance) public goods. There are a growing number of examples of public sector entities contracting to NGOs and private firms for the management of public facilities or the provision of public services. These innovative institutional arrangements, mixes of public authority and civil society, are typically invented at the local level and disseminated rapidly.

Encouragement of this type of institutional diversity and experimentation at the local level is an important part of local capacity building. Typically, national governments have imposed uniform blueprints for the provision (financing) and production of a variety of goods and services. Innovation has been discouraged. NPI provides a context in which USAID can work with its nongovernmental partners to support such innovation in sectors in which the Agency operates.

What follows is an illustrative list of program ideas that focus on the interaction of the three NPI components (NGOs, small business, and local governance) and serve to build civil society.

- **Policy Advocacy:** Although the policy and regulatory requirements of small business, NGOs and local authorities undoubtedly differ, they also share many common and reinforcing interests related to local empowerment, the protection of civil society, and a range of national development issues. Therefore, support for a range of local associations with an advocacy or watchdog function is fundamental to reform of the enabling environment and to participatory governance. Intermediary organizations that provide information and analysis, which link organizations on issues common to advocacy and service groups, and which provide economies of support services can be particularly important.

- **Citizen Boards:** Citizen advisory boards, planning boards, ombudsman institutions, and other devices that link citizens directly to the governance process are important innovations. The key is to establish the right and an institutionalized mechanism for participation. Sectoral programs should explore the possibility of support for such institutional arrangements.
- **Financial Intermediaries:** Access to financial markets has been a critical constraint for local action. Local governments commonly lack both borrowing authority and access to financial institutions. Small businesses and NGOs face many of the same problems. A competitive banking structure and specialized intermediary financial institutions can be critical to the expansion of the development role of local organizations.
- **Tax System:** The tax system, national and local, is critical to the success of local initiative. National stabilization programs frequently ignore the issue of the vertical distribution of revenue authority. Tax relief for community organizations and NGOs may be inadequate. A system of national grants reduces incentives to seek fees for services, and hence the incentive to move to private or NGO production of services.
- **Human Rights Groups:** The protection of basic human rights would appear to be fundamental to a dynamic civil society. Support for local human rights groups linked to national organizations operating within a system of constitutional guarantees supports all local organization.
- **Local Media:** Local media are an important source of information, communication, and dialogue for civil society that serve all local groups.
- **The Public Interest:** There are a wide range of development programs in which private and public interest interact. These include environmental protection, services to the poor, public utilities, civic education, and public health concerns. All of these invite creative arrangements for cooperation among small business, local government, and NGOs. Indeed, the evidence is clear that sustainability depends on just such hybrid vigor.
- **Electronic Networking:** One way to strengthen the general infrastructure of the nongovernmental community and foster cross-cutting linkages is to build upon growing networks of development partners through electronic networking. One possible NPI activity is the expansion over time of USAID's NPI-NET to include an even broader-based network of nongovernmental actors. Fostering cross-border and cross-sectoral linkages among partners might contribute to economies of scale and facilitate an exchange of lessons learned.

Focused upon the expansion of shared learning, NPI-NET would help even the playing field among countries and regions where nongovernmental actors are

strong and those where they are weak. Through a "best-practices" data bank and expanded access to electronic networking services (perhaps with the establishment of Internet access in intermediary service NGOs), participants would share experiences, methodologies, training materials, and other information related to ways in which citizens can participate in and contribute to the life of their communities.

#### **D. AGENCY-WIDE PERFORMANCE INDICATORS: TRACKING NPI RESULTS**

Tracking NPI results not only requires much clearer measures of our performance in each of the three NPI focus areas, but also more analysis and evaluation of how strengthening partners and partnerships contributes to USAID's sustainable development objectives.

USAID's goals and objectives--the broad changes in developing country conditions to which we contribute--are outlined in USAID's *Strategies for Sustainable Development* and *Agency Strategic Framework*. NPI activities contribute to all of these goals and objectives, but are particularly relevant to "strengthening civil society" and "promoting more accountable governance" under USAID's Democracy goal, to "strengthening PVOs and NGOs" as part of our Humanitarian Assistance goal, and to "expanding economic opportunities" under our Economic Growth goal.

Agency-wide indicators are being developed to track progress towards these goals and objectives in every country. These will be coupled with analyses and evaluations that link broader development results to Agency activities. NPI will require new indicators to measure progress in strengthening partners and partnerships both as key intermediate results and as a consistent cross-cutting theme.

One approach to measuring "strengthened partnerships" would be to develop a single set of common "partnership indicators" that would be reported for every country. An alternative would be to summarize and synthesize operational-level partnership indicators, even if they remain somewhat different from country to country. This latter approach would be more feasible to the extent that operating units use similar performance indicators for similar NPI activities and results.

Simply tracking selected performance indicators, however, tells us little about why results are occurring or how strengthened partnerships contribute to development. The Agency's ability to learn from the NPI experience depends fundamentally on an active program of evaluation and research that explicitly explores these questions. This should focus not only on the NPI Leading Edge Missions, but also be a significant element in USAID's broader research and evaluation agenda.



Substantial work also remains in developing indicators to measure the results of NPI activities at the operational level, and universities may have an important role to play in this process. Every USAID operating unit identifies performance indicators to measure progress and "manage for results" in their particular development setting. Many of the "intermediate results" associated with NPI activities are, however, both difficult and controversial to measure. How, for example, do we assess whether the "capacity" of an NGO has been strengthened? Is there a simple indicator of "an improved enabling environment" for small business? And, how do we tell whether "civil society" has been strengthened? Many of the dimensions of strengthened partners, moreover, such as "independence," "policy influence," "responsiveness," and "innovativeness" involve fundamentally qualitative distinctions. Equally difficult is the establishment of interim benchmarks. An increased emphasis on partners and partnerships may require a substantial rethinking of objectives and strategies for some operating units.

Some of the issues and options involved in selecting the most appropriate "partnership" indicators and analyzing performance at an operational level are discussed in more detail in the Focus Reports. Additional help will be provided through feedback from Agency indicators' workshops, the Office of Women in Development, supplemental performance measurement and evaluation references, feedback from the Leading Edge Missions, and feedback from a possible NPI indicators workshop.

USAID's ability to analyze NPI results also depends on our ability to track NPI activities and budgets. New activity codes are currently being developed as part of USAID's reengineered budget and financial management systems to more accurately report funding and expenditures associated with NPI activities.

## **E. NEW MANAGEMENT VEHICLES**

What new management approaches are needed in order to accomplish the NPI objective of developing local capacity?

### **MANAGEMENT REFORMS**

Over the past year, USAID has simplified a number of administrative and grant-making requirements to help achieve an effective, results-oriented partnership (see Annex 4 for greater detail). The Agency continues to work to identify and implement measures to rationalize and streamline administrative, procedural, and

*USAID is committed to restructuring its relationship with its partners: engaging them in the definition of performance goals and indicators, and in country and sectoral level planning; strengthening their authority to implement programs; and sharing with them the responsibility for the mobilization of resources and for results achieved.*

contractual requirements across the spectrum, from registration and negotiation to implementation and audit.

Recent policy reforms include updated guidance on the USAID-U.S. PVO partnership and a statement of procurement principles for awarding grants and cooperative agreements to PVOs and NGOs. Administrative reforms include streamlining the registration requirements for U.S. PVOs; allowing greater flexibility in cost-sharing arrangements; simplifying approval and reporting requirements for grants and cooperative agreements; and relaxing audit requirements for local NGOs.

USAID needs to continue grappling with other management issues, however, such as impediments to organizational reform. How can the Agency effectively implement changes in its development philosophy to reflect NPI's emphasis on local capacity building? After years of primarily government-to-government interaction, how can USAID's development practitioners learn to work in partnership with local business and civic organizations?

In the near future, USAID will need to devote substantial time and resources to disseminating information on the Agency's reforms and in training staff in these new ways of doing business. One of the most critical areas for reform is to reorient Agency culture from one that is hierarchical and process-focused to one that actively encourages hands-off management, teamwork, prudent risk-taking, a customer focus, managing for results, participation, and partnership.

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## **NEW MANAGEMENT APPROACHES**

Progress in achieving NPI's central objective will require changes in USAID's enabling environment -- the policies and procedures that govern the way the Agency conducts business. For example, USAID's reengineering efforts and application of procurement reforms will greatly enhance the Agency's ability to work with local organizations.

NPI activities are expected to involve minimal U.S. direct hire (USDH) management requirements; nevertheless, some reallocation of resources will be required. USAID's current resource constraints have implications for the way NPI activities will be managed. For example, the Agency may turn increasingly to activities requiring minimal USDH oversight, such as umbrella (sub-agreement) mechanisms. Since this initiative does not detail human and financial resource requirements, resource allocation decisions will need to be considered as various NPI activities are developed.

In addition to recent Agency reforms, there are other changes, outlined below, which would enhance USAID's enabling environment for local capacity building activities.

**1) LOCAL REGISTRATION:** A recent CDIE study on USAID's management of PVO/NGO activities noted that many missions and local organizations find it difficult for local not-for-profit organizations to become registered with USAID as PVOs. (Registration is a legal requirement for U.S. and foreign organizations meeting the criteria defining a "PVO.")

To assess the extent of registration problems at the mission level, USAID/W will gather information on obstacles commonly encountered by local nongovernmental actors and mission staff, and will assess the impact on USAID funding of local organizations. Data also will be collected from missions where the registration process seems to run more smoothly. This information will be used to develop a plan for resolving local PVO registration problems.

Depending on the results of the survey and assessment, USAID may need to clarify the general requirements for PVO registration and explain the recently streamlined procedures. In addition, the Agency may explore reforming local PVO registration requirements through legislative action.

**2) ACCESS TO FUNDING:** In addition to exploring reforms for local registration requirements, USAID needs to develop ways to improve the access of capable local organizations to USAID funding.

Currently, a sufficient variety of funding vehicles exists to implement NPI activities; the challenge lies in using existing mechanisms in innovative ways. For example, USAID long has used "umbrella" agreements, in which a lead organization makes sub-awards to other, typically smaller, implementing organizations. These agreements remain a viable funding option under NPI, but should be structured in ways that will meet NPI's capacity building objectives while minimizing USAID's management burden. The Agency also should work to develop creative, experimental mechanisms and to modify existing mechanisms such as endowments and debts swaps, which are infrequently used due to administrative impediments.

Other steps and approaches to increase access to USAID funding include:

(a) Explore creative funding approaches: The Agency has some little-used funding mechanisms, such as debt swaps and endowments, which are seldom employed due to administrative difficulties. Use of these alternative mechanisms can make larger amounts of funding available to local organizations. Although establishing these vehicles often involves considerable USAID staff effort, the on-going oversight requirements are not as intensive as those for a comparable number of individual activities. The Agency should explore ways to simplify the use of these vehicles and to make them more "user-friendly" for our development partners.

(b) Change obligation patterns: Instead of (or in addition to) the traditional approach of activity obligations, USAID should consider new approaches, such as the use of block grants and/or obligating funds by strategic objective. Since many organizations have multiple funding agreements with USAID, these approaches could minimize the number of agreements per implementer, which would greatly simplify program administration.

(c) Consider consortium and parallel funding: Other international donors increasingly are becoming involved in local capacity building activities and in direct funding of local organizations. While development of country-level consortia and parallel funding activities can be fairly labor-intensive from USAID's standpoint, the drawbacks may be more than offset by the increased leveraging of donor resources and simplified management for local implementers.

**3) OTHER MANAGEMENT REFORMS:** There are numerous additional reforms the Agency can undertake to improve its enabling environment for local capacity development. Some of these include:

(a) Communicate Agency reforms: USAID needs to adopt more effective and prompt ways to communicate reforms in Agency policies and procedures--and corresponding implementation instructions--to staff, particularly those in field missions, and to our development partners.

(b) Revise development strategies: The new USAID-U.S. PVO partnership policy calls for Agency consultation with PVOs and NGOs in the development of USAID strategic plans. Over the next few years Missions will need to revisit their strategic plans, drawing on the skills and experience of USAID's partners, to ensure that country strategies reflect new Agency policies and procedures.

(c) Participate in activity design: To advance NPI's goal of building local capacity, USAID Missions will need to assess the opportunities for involving local organizations in activity design and as implementation partners.

(d) Establish reform monitoring systems: USAID needs to establish internal monitoring systems to ensure that Agency reforms are quickly implemented and become operating norms. Two particular areas requiring monitoring are success in transforming the Agency organizational culture and in reform of the procurement system.

## **F. DONOR PARTNERSHIP: LEVERAGING RESOURCES AND ENGAGING OTHER PLAYERS**

USAID does not work alone. To advance an effective local empowerment initiative on a global basis, the cooperation of other bilateral and multilateral donors is required. From the outset, therefore, USAID has engaged other donors in the development of the initiative. Consultations have been held with several aid programs and Canada, The Netherlands, the World Bank, and the Inter-American Development Bank have been active participants. The NPI implementation strategy depends on continued cooperation.

Both the bilateral and multilateral donors are devoting increasing attention to issues of democratization, reorienting government, decentralization and increased participation, and the strengthening of civil society. Some of these programs, such as the bilateral donors' grants to NGOs, have a long history. But for other activities (e.g. the democracy programs) and for some donors (e.g. the international banks) this is new ground. A number of private foundations (e.g., Inter-American Foundation and Ford Foundation) also have extensive programs related to NPI and have recently requested involvement in the consultative process. Efforts to involve international PVOs will follow. The range of accumulated experience within the donor community as a whole is extensive.

A first step, therefore, must be to explore and advance donor consensus on the development priority of a program of local capacity building and empowerment and to draw on both donor and developing country experience on how it can be accomplished. There are also a number of multi-donor fora which might lend themselves to a donor dialogue. These include:

- \* The Working Group on Participatory Development and Good Governance (WGPDDGG) of the DAC has just completed a major seminar on civil society, and USAID has agreed to sponsor a seminar on decentralization early next spring that will directly address NPI issues.
- \* The World Bank has proposed establishing an Interagency Working Group on Participation to facilitate implementation of its new participation policy. This will provide an opportunity to advance cooperation on issues of civil society and local governance, especially in countries the Bank designates as "flagships." We have already had preliminary discussions with the World Bank during which they indicated they'd welcome collaboration -- particularly in the area of assessments.
- \* The Consultative Group to Assist the Poorest (CGAP) which has just been established to coordinate donor efforts in microenterprise development, and chaired initially by the World Bank, will have a strong emphasis on improvements in the enabling environment. Although the

grant program of the CGAP will not extend to small enterprise at this stage, issues relating to the enabling environment offer considerable complementarity.

- \* In the LAC region the IDB's new initiative on "modernizing the state" provides a potential focus for cooperation under NPI. IDB staff have participated in development of NPI and expressed considerable interest in future cooperation. One possibility is an IDB-chaired Committee for Sustainable Human Development.
- \* The World Bank chaired Special Program for Africa has a sub-committee focused on improved governance that might be a natural arena to raise NPI issues.

The complexity and scope of the enabling environment needed to support local empowerment is sufficiently great that it will be impossible for NPI to deal with it in its entirety. However, discussions with other donors have already revealed considerable consensus that an ad hoc collection of micro-level interventions is unlikely to produce significant structural changes in the state-civil society partnership. At the country level, therefore, it will be necessary to work with like-minded donors to structure a policy dialogue with the government and to support restructuring efforts. It would also be desirable to engage local nongovernmental actors in such a dialogue.

The multilateral institutions currently have limited capacity for working with civil society, predominantly working with and through national governments, but that is beginning to change. The IDB's program of "modernization of the state" and the World Bank's participation initiative move both organizations in new directions. Both institutions are also starting to reach out to nongovernmental actors as partners in the development effort. As a member of these international organizations the United States has an opportunity, in collaboration with other donors, to support and shape these new initiatives. However, much of the attention of the international banks has been focused on local participation at the project level, not on structuring a systematic expansion of the role of civil society. USAID can usefully encourage this broader strategic vision.

The growing interest in the international banks in support of governance reform and decentralization affords an opportunity for closer cooperation with the NPI. We have already indicated the critical importance of reorientation of the state and the development of diverse intermediary structures to facilitate the new state-civil society partnership. There is a natural partnership between the banks' interest in improved governance and the NPI focus on local empowerment.

Many of the nongovernmental sector programs of the bilateral donors have a strong poverty focus and are structured in small grants. The task of a sustainable development program, however, must be to systematize the rights and access of the

poor to the economy and to the political system. It is particularly important that this participation be afforded in areas which directly affect their lives -- environment, infrastructure, economic regulation affecting the small scale sector, social services, and the rights of minority communities. NPI can provide a valuable complement to these donor programs by working to structure institutional relationships that organize and integrate the poor into a system of local governance and an active civil society fully empowered to exercise its rights. Again, this is best done at the country level.

Although NPI is a single initiative focused on local empowerment, related donors' programs are often organizationally scattered. Although local empowerment is typically a common goal of such programs, initial cooperation may be most effective if organized by component. NGO capacity building will undoubtedly be the easiest. The recommendation that NPI start with a focused pilot effort in a few countries, if accepted, will provide an arena in which to focus institutional cooperation.

Many donors are already active in these areas and some have broader and more recent experience than USAID. Thus, both the opportunity and initiative for such cooperation will be at the country level and will be a mission responsibility under the NPI. In each area, cooperation on assessments and policy dialogue is a priority. For each NPI component, therefore, there are priority issues for donor dialogue:

- \* **NGO Empowerment:** (a) engage the NGO community fully in donor dialogue at the country and sectoral level; (b) on a country basis, begin to structure a systematic and institutionalized role for NGOs in service delivery; (c) work to develop the advocacy role of local NGOs; (d) provide strong donor support to growing partnership between the NGO community and the international banks; and (f) identify and promote successful strategies for women's political and economic empowerment through participation and leadership in the NGO sector.
- \* **Small Business Entrepreneurship:** (a) work with the international financial institutions to assure that financial sector reforms fully address the needs of the small and microenterprise sector; (b) cooperate with other donors to support small business associations in both their economic and civil society functions; (c) work to discover workable models of small business cooperation internationally; and (d) coordinate systematic attention to the removal of all laws and practices that discriminate against women's entrepreneurial efforts.
- \* **Democratic Local Governance:** (a) work to assure that donor efforts at decentralization and improved governance are linked to effective democratization and institutionalized participation at the community level; (b) support the international banks' governance programs' attention to inter-governmental relations and local government support

services; (c) assure that budget reform programs take into account principles of financial decentralization; (d) work with other donors to develop assessment methodologies and performance indicators for civil society and local governance programs; (e) work with other donors to support international networks of local governments; and (f) identify and promote strategies that integrate women into all levels of decision-making, particularly decisions on resource allocation, in local government structures.

## **G. IMPLEMENTATION GUIDANCE AND MOCK CASE STUDIES**

USAID is already implementing activities consistent with NPI throughout the geographic regions in which it operates and across the development sectors. Local institutional capacity building has been a strength of USAID since its formation, but past and existing projects and programs do not always emphasize the importance of creating "partnerships" among and between institutions. NPI does build on a substantial base of activities and experience, however, and through a series of short-, medium- and long-term interventions, the New Partnerships approach will eventually become an integral part of the way the Agency does business.

There are incentives for participation in NPI in addition to the fact that it makes good development sense. These include special recognition within the Agency, which may translate into supplemental funding, pending budget decisions. It most certainly will help provide programmatic protection during future funding cuts. Missions have further incentive to adopt NPI activities in that they may contribute to the Agency's target to program at least 40 percent of its resources through PVO/NGOs within five years.

Over the course of the next several months (August through October 1995), the NPI Learning Team in Washington (a transformation of the Steering Committee that will include members from within and outside USAID) will work closely with regional bureaus and field offices to identify and select five to seven NPI Leading Edge Missions. In collaboration with their development partners, USAID mission personnel in these pilot countries will carefully examine their existing portfolio from an NPI perspective. The objective will be to design and implement a plan of action that puts new emphasis on building local capacity and strengthening partnerships. The NPI Learning Team will assist in the formulation of methodologies for country-level NPI baseline assessments and in the elaboration of performance indicators. While all USAID missions are encouraged to begin to adopt a NPI strategy, the selected group will take the lead during the initial learning period (NPI's Phase II).

It is not expected that NPI will entail a rapid, radical transformation of mission activities or strategic objectives (SOs), which many missions have recently developed in line with Agency directives and in collaboration with their development partners. Mission SOs make sense in each country context and NPI is not intended



to undo or repeat the planning process. However, missions will be expected to tailor their specific programs to the NPI conceptual framework to the extent that it makes good developmental and programmatic sense in each country. Experience has shown that the most effective and sustainable institutions are those that blend new activities with existing structures. The particular social, economic and political structures found in different country contexts are thus the concrete building blocks of new partnerships.

The adoption of NPI activities by missions will begin in earnest at the conclusion of Phase II and will advance over the course of the next several years. Transitional periods, such as the development of a new country strategy, offer the most obvious opportunity to introduce NPI activities. But missions may also take a more step-by-step approach where existing programs are gradually modified to integrate NPI more formally into the mission's strategic plan.

Implementation of NPI will require that missions and the relevant technical offices in Washington work more closely with U.S. grantees to ensure that partnerships with various local institutions have empowerment and capacity building as fundamental goals. Ad hoc consultations with local organizations and stakeholders fall far short of the relationships envisioned under NPI. It also must be recognized that these initial efforts are likely to be quite labor-intensive. It is anticipated that USAID missions will need to work with a variety of intermediary partners to take on much of this added management responsibility.

To create the most favorable learning situation for the eventual Agency-wide incorporation of NPI, a broad cross-section of countries are sought to become NPI Leading Edge Missions. The objective of the Leading Edge Mission approach is to continually monitor and evaluate NPI activities so that this important development theme is as effective as possible. This learning exercise will be enhanced by selecting countries based on a wide mix of criteria. In addition to seeking countries from different geographic regions, other variables will include:

- stage of economic development and estimated requirement for continued foreign assistance;
- degree of existing capacity among NPI institutions and economic (small business) actors;
- willingness of existing partners to emphasize local capacity building;
- level of NPI-related activity by other donors and the opportunity for missions to leverage funds and results;
- current strategic and programmatic orientation of USAID missions; and

- demonstrated capacity and commitment to women's empowerment through NPI-related activities and choice of local partners.

### Categories of NPI Leading Edge Missions

The list below provides categories that encompass most of the countries where USAID works. Leading Edge Missions will be selected so that as many of these categories as possible are represented. This diversity will help speed the identification and testing of NPI-related options in a number of different country contexts.

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|---|--|
| <p><b>I.</b></p> <p><b>II.</b></p> <p><b>III.</b></p> | <p><b><i>Anticipated graduation from current U.S. assistance to more self-sustaining development capacity within five to ten years:</i></b></p> <ul style="list-style-type: none"> <li>* <i>Countries with relatively high per capita GDP and some existing local capacity in NPI areas;</i></li> <li>* <i>Countries with relatively high per capita GDP, but weak local institutions in the NPI areas.</i></li> </ul> <p><b><i>Countries with sustainable development programs requiring longer-term assistance:</i></b></p> <ul style="list-style-type: none"> <li>* <i>Countries with some existing capacity in all NPI areas;</i></li> <li>* <i>Countries with some existing capacity in one or two, but not all, NPI areas;</i></li> <li>* <i>Countries with weak local institutions in the NPI areas, but high potential for improvement in these areas.</i></li> </ul> <p><b><i>Special cases:</i></b></p> <ul style="list-style-type: none"> <li>* <i>Countries in transition from failed state to sustainable development with high potential in the NPI areas;</i></li> <li>* <i>Countries with conflict situations (current or in the recent past);</i></li> <li>* <i>"Global Interest" countries where USAID programs concentrate on issues of global concern or where the situation is highly favorable for increased society-to-society partnerships.</i></li> </ul> |
|---|--|

The process to select five to seven Leading Edge Missions will begin immediately following the fast-track review of the NPI reports by senior management and the communication of NPI objectives and operational parameters Agency-wide and to USAID's development partners. Missions and their development partners will have an opportunity to discuss the applicability of NPI themes and programs in each particular country. Further dialogue between the NPI Learning Team, the Regional Bureaus and individual missions will eventually lead to a discrete group of NPI Leading Edge Missions.

At the mission level, part of the selection process will entail the elaboration of specific NPI results indicators, as well as the design of a monitoring and evaluation structure to provide data and analysis for ongoing corrections and the future expansion of NPI programs. In Washington, the NPI Learning Team will strengthen both its advisory and support role vis-a-vis Leading Edge and other missions through research and analysis on local capacity building and successful partnership models. A wide variety of USAID's development partners will be engaged in all implementation and evaluation efforts.

*Programmatic decisions about NPI implementation in any particular country will be the result of a field-based exercise, involving the NPI team, the bureaus, the missions and their development partners.*

Over the next 12 to 18 months, the NPI Learning Team and Leading Edge Missions will continue to monitor NPI progress to learn more about successful NPI implementation in order to facilitate the experience of other USAID operating units. An active outreach component will reinforce efforts to compile and widely disseminate lessons learned and best practices. One important activity of the Learning Team will be to guide and assist all USAID operating units to perform a Partnerships Assessment before the end of FY 96. This assessment will allow missions to take a critical look at their current programs, highlight the NPI-related activities already underway, and give missions an opportunity to identify further NPI opportunities.

Within three to five years, it is anticipated that NPI will have developed into a coherent, comprehensive framework with a broad range of programmatic options. At that time, every USAID operating unit will be implementing country programs that are consistent with NPI objectives.

#### **NPI Implementation: Illustrative Examples Based on Existing Mission Programs**

The following examples are purely hypothetical. They are intended to assist missions already juggling multiple competing demands and to move the abstract discussion of NPI to the concrete realities of the field. The goal is to provide a vision of the ways in which NPI might be of use to missions in a variety of different country settings. Rather than "inventing" a hypothetical country and risk establishing self-fulfilling parameters, it was decided to apply the NPI framework to a series of real world contexts. Country selection resulted from informal consultations with bureau and/or mission staff, a number of whom have met with the NPI team.

Of course, actual programmatic decisions about NPI implementation in any particular country will be the result of a field-based exercise, involving the NPI team, bureaus, missions and their development partners. These illustrations are intended to ground the NPI framework in the real-life circumstances of USAID missions. The cases presented below are abbreviated -- see Annex 1 for greater detail.

**Illustrative example #1 - MALI**

A popular revolution in 1991 reinvigorated prospects for democratic governance and economic growth in Mali. There is a broad consensus among donors, international and local NGOs, the Malian government and the Malian people on the need for decentralization, local institutional capacity building and partnerships.

***Current USAID Country Strategy and Program***

USAID/Mali is in the process of developing a new, eight-year strategic plan with three SOs and a cross-cutting, Special Objective. The unofficial strategy proposes:

- \* SO 1 focuses on youth, from age 0 to 24. Multi-sectoral interventions in health, education, environmental management and job training will prepare youths for their adult lives.
- \* SO 2 balances the need for economic growth within a sustainable environment. It combines political and economic policy reform initiatives with targeted interventions that empower communities to manage local resources.
- \* SO 3 builds the capacity of civil society organizations to demand good governance while, simultaneously, undertaking policy reform actions to improve the legal, regulatory, and economic environment for local organizations.
- \* The cross-cutting Special Objective helps Mali catch up, and keep up, with the information technology revolution. Experimental, small-scale interventions in collaboration with the private sector will support information and communication needs.

***Illustrative NPI Country Program***

USAID/Mali has initiated the creation of a Maximum Center. The center will serve as the program nexus, providing ongoing monitoring and evaluation of results. It would be the obvious location for a concentrated emphasis on NPI implementation. A small amount of additional funding could go a long way in helping the Maximum Center to operationalize its many ideas and plans. Some possibilities include:

- a small grants program for innovative activities submitted by NPI development partners;
- research funds to generate lessons learned and disseminate best practices on 1) building partnerships; 2) on the relationship between customary local governance and the government's decentralization actions; and 3) on the relationships and overlap between service delivery NGOs and advocacy organizations;

- program funds to build small business capacity by helping repeat recipients of microenterprise loans to acquire the skills (tax payment information, employee management) needed to make the transition from the informal to the formal economy.

Without additional funds, the adoption of NPI activities beyond what is already part of the mission program will be slowed considerably. Research on building local capacity and empowering local communities will continue, but specific studies may have to be staggered over a longer time period. Assistance for the transitions from the informal to the formal economy will need to be incorporated into the mission's microenterprise lending programs as they are renewed and redesigned.

### **Illustrative example #2 - ROMANIA**

Like most countries in Eastern Europe and the former Soviet Union, Romania is grappling with the challenges attending the transition from central planning and authoritarian rule to a market-based economy and democratic polity. Democratic institutions and practices have begun to take hold, but they remain fragile. The NGO sector continues to grow yet many organizations, institutes etc. appear to lack staying power. A tradition of centralized control combined with the adoption of a prefecture system akin to the French model has prevented the diffusion of political power to the local level.

### ***Current USAID Country Strategy and Program***

The animating logic and principal goals of NPI dovetail well with USAID's present strategy in Romania. U.S. assistance under the SEED program has focused on increasing the role of the private sector, including the creation of small businesses, developing and strengthening the NGO/PVO sector, and enhancing the administrative capacity and commitment to democratic norms of local government. At the same time, the mission is working at the national level to create an environment conducive to political and economic pluralism and to encourage devolution of decision-making authority to local institutions.

### ***Illustrative NPI Country Program***

As a Leading Edge Mission, USAID/Romania might consider some additional activities designed to build on the existing "beyond Bucharest" focus to expand local capacities. One idea is a modest social investment fund which would make small grants to local organizations for community projects and thereby address some of their common weaknesses such as poor management and strategic planning skills.

Other new or expanded activities include:

- Enhance the administrative capacity and transparency of municipalities through projects such as those of the International City/County Management

Association (ICMA) which have already helped a few large cities to reduce water and electricity consumption and to secure direct loan financing from the IBRD.

- Intensify efforts to decentralize political power by promoting the formation of associations (e.g. local Chambers of Commerce; National Federation of Mayors) which aggregate interests and can lobby, directly and indirectly, executive branch policymakers and legislators.
- Expand existing programs which draw on the expertise of U.S. NGOs/PVOs (e.g. VOCA, CDC) to provide technical assistance to new small businesses using resident volunteers. These society-to-society linkages might also be used to make small loans or grants to would-be small business entrepreneurs, perhaps targeted to women.
- Expand ongoing programs aimed at privatizing the existing housing stock and establishing a real estate market.
- Foster stronger ties among diverse local NGOs/PVOs through regional conferences and/or technology links, and forge partnerships between these organizations and U.S. counterparts.

A number of these prospective activities could be implemented even in the absence of additional NPI-related funds. For example, USAID could support the establishment of associations of private enterprise owners in the manufacturing and service sectors to complement ones it helped bring to fruition in agribusiness. Similarly, the mission could broaden its efforts to facilitate town meetings bringing together community representatives, local authorities, NGOs, local small business operators and relevant national government officials to discuss critical issues confronting municipalities.

Finally, another way to advance the goals of NPI without the benefit of extra resources is to collaborate more closely with other bilateral and multilateral donors who share USAID's perspective on strengthening local capacity. Although European donors tend to view USG assistance strategy in the ENI region as bordering on anti-statist, they recognize the importance of small business development, grassroots empowerment, and local government administrative competence.

### **Illustrative example #3 - BRAZIL**

Brazil is a country of great contrasts - a world class industrial economy in the south along with severe poverty in the Northeast and Amazon regions. After decades of military rule, the country still struggles to establish and consolidate an effective democracy, while the economic downturn of the past ten years has constrained the ability of the national government to deliver social programs. As a

result, local government and private organizations have had to greatly increase their program and financial responsibility.

***Current USAID Country Strategy and Program***

USAID returned to Brazil in 1986 when it became apparent that the Agency could not address global problems such as population growth, global warming, and HIV/AIDS without a Brazil program. The mission's three SOs (environment, family planning, and AIDS prevention) directly address these three global problems. The mission also has small programs in two special problem areas, Street Children and Democratization.

Due to certain legislative prohibitions, the USAID program does not deal with the Brazilian government on a bilateral basis, rather the program is designed with and implemented entirely by PVO/NGOs, universities, and contractor/grantees. These intermediaries, however, often work with Brazilian state and local governments to address problem areas in the targeted regions.

***Illustrative NPI Country Program***

USAID/Brazil's programmatic approach of working with nongovernmental actors, who, in turn, are dealing with state and local governments, has provided substantial experience in building partnerships in the NPI areas. This experience provides the mission with a number of opportunities to expand NPI activities. The examples below relate only to the mission's special program for At Risk Youth (street children), but similar elements can be adapted to build local capacity in each of the other areas of USAID's portfolio. Program opportunities include the following:

- build local partnerships between NGOs, municipal governments and the small business sector to address the multiple causes of the street children problem (e.g. the "Pacto da Cidade" in Fortaleza);
- initiate a small grants program, based on the MacArthur Grants model, to help strengthen the institutional capacity of weaker Brazilian NGOs; and
- foster greater linkages between U.S. and Brazilian entities and among Brazilian entities by getting groups together through workshops and conferences or by making information available about the different organizations working in similar areas.

Other NPI activities that could be initiated with little or no additional cost to the mission include: (1) the identification and dissemination of models or "best practice" examples of successful partnerships; and (2) coordination with other donors to increase their involvement in NPI activities.

**Illustrative example #4 - PHILIPPINES**

The Philippines has benefited recently from positive economic and political trends, but equity is still an overarching issue. The government enacted a decentralization program in 1991. Since the fall of authoritarian rule in 1986, Philippine civil society has seen remarkable growth, marked by an expansive nongovernmental sector of over 20,000 NGOs. Economically, USAID and other donors find a large number of capable private sector organizations.

***Current USAID Country Strategy and Program***

USAID's strategy to support the Philippine drive for growth with equity has four strategic objectives, each based on crucial partnerships with U.S. and local organizations. The specific strategic objectives are:

- \* SO 1 seeks to reduce population growth and improve health;
- \* SO 2 enhances management of renewable natural resources;
- \* SO 3 promotes increased economic participation in a targeted region (Mindanao); and,
- \* SO 4 broadens participation in the formulation and implementations of public policies/local governance.

***Illustrative NPI Country Program***

SOs 3 and 4, in particular, already have strong NPI components that can be built upon. The economic growth strategy works with communities in 10 provinces. This strategy would ideally be extended horizontally, both within Mindanao and possibly to one or more other regions.

For the local governance strategy, the timing will soon be ripe to join the work with Local Government Units on a "deeper," demand-side approach to local democracy-building. Programmatic support for local NGOs and membership-based associations will enable greater public participation and discussion on the use of resources made available to local governments. There are also possible synergistic impacts for a democracy strategy that looks to parliamentary and local elections, scheduled to take place in two years, to promote new policies and candidates. Possible activities include efforts work to organize women, and women candidates, via one or more of the coalition efforts.

Even without additional funds, USAID/Philippines and its partners can carry forward a program in line with NPI concepts. New issues and approaches are already being identified and enacted at the local level and these will continue, albeit at a slower pace than would be possible with financial support.



## H. SUMMARY OF NEXT STEPS

This report brings to a close the first phase of NPI, which has been devoted to participatory conceptualization and design. Following review by the Agency's senior management, NPI will move into Phase II--a 12 to 18 month learning phase concentrated upon (although not limited to) five to seven "Leading Edge Missions."

During Phase II, the results of NPI activities in the Leading Edge Missions will be widely shared. There will be an extensive outreach effort to ensure that NPI's "lessons learned" are disseminated immediately throughout the Agency and to outside partners, and that management reforms which emanate from the NPI effort are rapidly embedded in Agency practice. Pending review of the results achieved in Phase II, Phase III will see an expanded application of the NPI conceptual framework and methodology throughout the Agency.

There are a number of immediate tasks to be undertaken at the beginning of Phase II. These are grouped into several task categories, and are discussed below.

### Information Dissemination

- Dissemination of the final NPI Core Report, Focus Reports, and Annexes throughout the Agency and to external audiences;
- Preparation of a summary version of the NPI reports for widespread public distribution; and
- Development of a dissemination strategy that will enable USAID to effectively communicate the essence of the new initiative to a variety of U.S. domestic audiences.

### Consultation

- A second round of consultations within the Agency on NPI, building upon the active participation of all bureaus and many field missions in the NPI process itself;
- A third public consultation on NPI under auspices of the Advisory Committee on Voluntary Foreign Aid (ACVFA) to review the final NPI reports;
- Initiation of a series of discussions on NPI with other U.S. government agencies to explore areas of complementarity and collaboration;
- Initiation of consultations with host governments regarding the relevance of NPI to their sustainable development objectives; and
- Continuation and expansion of discussions of possible areas of collaboration (e.g., funding mechanisms) with other donors.

### **Implementation**

- The selection of Leading Edge Missions, following close consultation with USAID's bureaus and field missions, and with USAID's development partners, particularly other donors;
- Design and establishment of a management mechanism for Phase II (the learning phase), which includes the participation of external partners to the maximum extent possible under existing legislation;
- Identification of and advocacy regarding immediate policy and management reforms needed for successful Agency-wide adoption of NPI (including the establishment of an ombudsman for nongovernmental actors).
- Follow-up with missions and central bureaus to collect missing data and to ensure that information provided in the inventory reflects activities that specifically target local capacity building;
- Issuance of specific NPI implementation guidance to missions participating in Phase II;
- Work with the reengineering training teams to incorporate the concepts of partnership and local capacity building;
- Development of a mechanism to ensure that obligations and expenditures for NPI-related activities are captured in the Agency's financial management system;
- Development of Agency research and evaluation capacity on NPI concepts (especially local capacity building);
- Formulation of methodologies for country-level NPI baseline assessments for use in NPI Leading Edge Missions in Phase II;
- Elaboration of performance indicators for local capacity building and for each component of NPI (NGO empowerment, small business partnership, and democratic local governance); and
- Development of a methodology for Agency-wide partnership assessments to capture the degree to which USAID is involving a broad range of development partners in its activities.

### **Management**

A fundamental principle of NPI is that local communities best understand local conditions and incentives for change. For this reason, NPI is intentionally designed to

be flexible and responsive to specific country settings, and requires a proactive commitment from field missions to tailor NPI to local realities.

To ensure that NPI is a cross-cutting initiative focusing on local empowerment (rather than on isolated activities in the three NPI focus areas), the learning phase requires team management. In keeping with NPI's emphasis on participation, NPI management will include USAID/W, the field (both Leading Edge and other missions), and the full range of NPI development partners discussed in the Core Report. Working groups devoted to further exploration of the three core NPI components may be formed.

A variety of mechanisms will be used during the learning phase to consult with NPI partners and to provide information on NPI developments. Quarterly Agency-wide meetings, public consultations, expansion of the NPI electronic network (NPI-NET), and a monthly NPI-NET newsletter are some of the communications mechanisms under consideration.

### **Resources**

There are two important aspects of NPI related to Agency resources: the overall target of increasing the share of resources allocated generally to PVOs and NGOs over a period of five years, and the potential allocation of seed money for the NPI initiative itself (which would not be limited to PVOs and NGOs).

First, as announced by Vice President Gore in March 1995, NPI includes a target commitment to make the necessary shifts in USAID programs and management to assure that within the next five years USAID will channel 40% of its development assistance funds through U.S. and local PVOs and NGOs (as traditionally defined). As noted in the inventory (Annex 2), in FY 1994, 27.7% of USAID's development assistance (i.e., \$590 million of a total \$2.127 billion) was through PVOs and NGOs (including Cooperating Agencies). Thus, one aspect of NPI is this targeted increase in Agency funding through U.S.-based and local PVOs and NGOs (whether or not they are engaged in NPI-related activities).

Second, the New Partnerships Initiative itself will involve Agency work with a broad range of development partners--not just traditional NGOs and PVOs--working on local governance and small business, as well as NGO capacity building. This would include an expanded definition of "NGO" (to include, among others, universities), as well as small business actors and associations of local officials engaged in NPI's local capacity building and partnership activities.

The Agency has identified an extensive existing portfolio related to NPI objectives. A first task will be to conduct a thorough review of this portfolio to bring it into compliance with NPI strategies and proposed management systems. In addition, seed money is requested to support a learning program and pilot efforts.

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**NEW PARTNERSHIPS INITIATIVE**

***NGO EMPOWERMENT***

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## **EXECUTIVE SUMMARY**

Local participation in civil society is one of the essential driving forces of sustainable development.

- Local decisionmaking directly reflects the political and social interests of private citizens as well as the economic goals and choices of producers and consumers.
- Local decisionmaking at the "grassroots" and at intermediate levels of political and economic organization is less encumbered by bureaucracy and excessive regulation.

As a result, local participation stimulates initiative, innovation, entrepreneurship, rapid technology transfer, and adaptability to the development process.

The New Partnerships Initiative (NPI) seeks to support the capacity of local actors to participate in the development process. Nongovernmental organizations (NGOs) together with small businesses and local governments, comprise the core components of effective local capacity.

USAID will pursue programs which foster at all levels of government an "enabling environment" favorable to NGO empowerment and which directly bolster the capacity of local NGOs. The Agency will utilize intermediaries, especially U.S. PVOs, to carry out much of the work to strengthen local NGOs.

USAID's goal is to create a large, diverse community of local NGOs capable of promoting sustainable development. Each country is different; the nature and roles of NGOs will differ significantly from country to country. Still, NGOs are everywhere a potentially critical vehicle for articulating collective interests and for ensuring citizen participation in the development process. In countries where the linkages between local NGOs, small business, and local government are strong and where there appears to be sustainable progress toward democracy and free-enterprise, NPI can set the stage for graduation from USAID assistance.

NPI will support local capacity building by helping to create and sustain an extensive network of "partnership" relationships involving:

- USAID and U.S. PVOs and NGOs, including those with which the Agency traditionally has not worked, such as organizations with little or no international experience;

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- U.S. PVOs and NGOs and local NGOs, at times also including other donors such as the World Bank or UNDP;
- USAID field missions and local NGOs; and
- Host country governments at all levels.

There are many mechanisms available to USAID to bring about these partnerships. In adopting NPI, the Agency will be relying more heavily on the judgment and expertise of its PVO and NGO partners. Hence, USAID will make greater use of grant mechanisms. PVO and NGO partners will be integrally involved in developing program activities and have greater input into Agency planning and decisionmaking processes.

The NGO empowerment component of NPI will be broadly applicable in nearly all USAID-assisted countries. Missions will be expected to develop programs designed to strengthen the capacity of local NGOs, taking into account the vicissitudes of local political, economic and social conditions. USAID/W will support this effort with expertise and help in partnering local NGOs with U.S. organizations.

This paper was prepared in close consultation with individual members of the U.S. PVO and NGO community. It also reflects the views of select local NGOs and USAID mission staff.

## I. POLICY GUIDANCE

### A. Development Rationale

#### The NGO Community and Sustainable Development

At all levels of development, a flourishing NGO community is essential to effective and efficient civil society. In the poorest countries, individuals pool their labor and modest financial resources to sustain more complex economic activity. In more developed countries, the organizational structures of NGOs become more formal, and participation broadens and deepens. Associations of NGOs may even form. Frequently, people working together for their economic interests will also seek out the support of government.

In the process of sustainable development, an effective and efficient civil society is as important as effective and efficient markets. Civil society organizes political participation just as markets organize economic participation in the society. Like markets, civil society conditions social behavior and helps allocate resources. In short, civil society plays the same sort of functional role in sustainable development that markets do.

In effect, both civil society and markets are essential "gears" in the sustainable development process. Like markets, civil society can function more or less effectively depending on government policies, the cultural values of the society, and levels of technology and infrastructure. Over time, like markets, civil society feeds back and can bring about changes in policies, values and technology.

Sustainable development is most likely to occur where both civil society and markets are free and open to broad-based participation.

The goal of the NGO empowerment component of NPI is creation of a large, diverse community of local nongovernmental organizations capable of promoting sustainable development.

In addition to the impact a vigorous NGO community can have as a provider of services and in direct economic activity, John Clark of the World Bank has pointed out the NGO community can:

- encourage official aid agencies and government ministries to adopt successful approaches developed in the NGO community;
- serve as a conduit for new technology and practices;



- educate the public as to their rights and entitlements under government programs;
- attune official programs to public needs by acting as a conduit for public opinion and local experience;
- provide efficient operational collaboration with government agencies and aid donors;
- influence development policies of national and international institutions, including support for decentralization and municipal reforms; and
- help national and local governments and donors fashion a more effective development strategy through strengthening institutions, staff training and improving management capacity.

Based on a growing body of analysis on local NGOs, it appears USAID can expect the following sorts of results from its efforts to empower NGOs and to support growth in the size and diversity of the NGO community:

- (1) Where there is a high level of interaction among NGOs, local government and small business, it appears the climate is most favorable for poverty reduction and effective action on other social priorities, though cause and effect may be difficult to separate.
- (2) Where the NGO community is not only sizeable but also where it interacts with local government and small business, it is able to achieve a significant multiplier effect on its own efforts.
- (3) Studies of decentralization and land reform programs in a range of countries have demonstrated that the active involvement of local NGOs is a key factor in influencing the degree to which benefits reach poorer citizens.
- (4) World Bank experience, drawn from a survey of 25 Bank-financed projects, indicates a strong correlation between project success and the participation of grassroots organizations.
- (5) NGOs with technical capacity and a good track record can offer more effective and efficient ways of delivering services and achieving project outcomes.

## B. Parameters/Definitions

**Nongovernmental Organization (NGO):** For purposes of NPI, an NGO will be defined broadly to include a wide range of local organizations in countries which are recipients of U.S. foreign assistance. For purposes of the NGO Empowerment component of NPI, the focus will be on organizations which contribute directly to development, whether or not they are legal entities. (This focus will exclude assistance to organizations whose sole purpose is advancement of religious, ethnic or purely cultural objectives.) For NPI purposes, the term NGO will include:

- organizations which deliver services such as those which provide training for improved child survival or credit programs for microenterprise;
- organizations which advocate for specific development objectives such as access to family planning services or improved infrastructure or liberalized tax laws for small business;
- organizations which advocate for policy reforms such as environmental safeguards;
- organizations which analyze development problems such as poverty or environmental degradation and organize national and local debates and education programs on these issues;
- organizations which are formed for direct production or for processing and marketing such as agricultural cooperative societies and village credit associations; and
- organizations which represent the common interests of other organizations or individuals such as chambers of commerce, trade unions and human rights groups.

**Partnerships:** NPI encourages development of a wide network of relationships involving local NGOs. The most comprehensive expression of the initiative would have multiple partnerships formed among local NGOs, local small businesses and local governments--working in some cases with international counterparts. With a view toward that, USAID will seek to foster multiple combinations of partnerships, including:

- USAID and U.S. PVO/NGO partnerships, drawing not only on those PVOs with which the Agency has traditionally worked but also on organizations which previously have not worked internationally or have not worked with USAID. U.S. organizations which have domestic grassroots constituencies can help find useful development approaches being used in U.S. localities;

- U.S. PVOs/NGOs and local NGOs, perhaps including other donors such as the World Bank or UNDP. In several countries, the Bank has played a central role in bringing together the government and NGOs in development policy and strategy discussions;

- USAID field missions and local NGOs; and
- Developing country governments at all levels.

**Capacity Development:** Ultimately, NGOs should be capable of pursuing their development objectives without the need to resort to foreign assistance resources, whether from USAID, from an international PVO, or elsewhere. In many developing countries, attainment of this goal of independence from foreign assistance will take time but will remain an important USAID objective. There are several factors which appear necessary for an NGO to become self-sustaining:

- the organization must be pursuing objectives which the members feel strongly are important and achievable. In most cases, this means the organization must start from the volition of its members;
- the process of pursuing development objectives and dealing with attendant real world problems is the single most important method of developing NGO capacity. This fits well with the likely requirement that USAID will need to use its resources to pursue sectoral objectives in areas such as family planning, child survival, microenterprise and agricultural productivity;
- management training can be useful in organizations which are already strongly motivated to achieve their development objectives, but must be tailored to the local environment and address needs which the local organization sees as important. Learning-by-doing is frequently an important part of successful management training programs.
- it is virtually impossible to overcome a hostile environment if the NGO's goal is pursuit of sustainable development objectives;

USAID needs to accept that formation and development of NGOs will be a very volatile process. Many organizations will come and go. The process of NGO formation and development will vary greatly from country to country and even within regions of individual countries. This is good to the extent NGOs express the economic, political and social interests of the people. However, it also means there is a real risk of squandering scarce foreign assistance resources. USAID will do best if it concentrates on the enabling environment, uses knowledgeable partners from the U.S. PVO/NGO community, and concentrates on local NGOs with demonstrated commitment to achieving their own development objectives.

### **C. Policy Issues**

NPI, especially the component on NGO empowerment, is footed in extensive new USAID policy on both participation and the Agency's close relationship with PVOs/NGOs. These policies will continue to provide a broad framework to guide development and implementation of the initiative. In addition, the following specific policies should be promulgated:

**1. Religious NGOs** USAID may offer direct support to local NGOs which are affiliated with religious institutions or which have sectarian memberships so long as the purpose of the work which USAID supports is clearly developmental. USAID will not permit direct support to such NGOs if the primary purpose of their work is simple religious affiliation or proselytizing.

**2. Ethnic and Cultural NGOs** Similarly, USAID will support ethnic and cultural NGOs whose work is clearly developmental.

**3. Political NGOs** Empowerment itself suggests political activity. USAID will support NGOs which advocate change which is clearly developmental, including NGOs which attempt to influence government policies and priorities. USAID will not support purely partisan NGOs nor NGOs whose sole purpose is to control governments.

**4. Profit-making NGOs** USAID will support NGOs which enter into profit making activities, whether the profit is to be distributed to members or invested in development activities. In fact, some means of generating revenue is likely to be critical to sustainability of an NGO. In most developing countries, some form of developmental activity which generates revenue is likely to be a more reliable source of income than either voluntary contributions from individuals or donations from governments or the international community.

**5. Priority to WID** The process of creating, strengthening and empowering local NGOs presents a powerful opportunity to change and advance the role of women in developing countries. This is especially true for profit-making NGOs, since they provide an opportunity for women to generate and control income. USAID will give priority to programs which involve women in the local NGO movement.

**6. Priority to Local NGOs** The purpose of the NPI is development of local capacity. There will be many ways to accomplish this. However, there is a risk that resources will be siphoned off by intermediaries and in the payment of excessive overhead. USAID will give priority to programs which assure that the resources reach and directly benefit local NGOs. In programs involving U.S. PVOs

and those involving delivery of services, priority will be given to partnerships with and capacity development of local NGOs.

7. **Regional NGOs** Recognizing they present possible political problems, USAID believes regional NGOs have real potential for advancing development objectives. USAID will support such NGOs, where appropriate.

#### **D. Relationship to Mission Ongoing Plans and Programs**

Most USAID missions have in place activities which utilize U.S. PVOs and local NGOs in the delivery of services. Most USAID missions have recognized the important role which NGOs can play in sustainable development, particularly in the process of democratization. Thus, there is a sense in which the NGO empowerment component of NPI is a broadening and deepening of what USAID is already doing.

However, there are three important areas where missions will be asked to "do things differently" as NPI is adopted. As these changes are made, and the broadening and deepening of ongoing activities takes place, NPI will help transform USAID's field programs and the way the Agency does business.

(1) Most missions have not yet involved PVOs and NGOs as active participants in the formulation of their strategic plans. The new USAID-U.S. PVO Partnership calls for such involvement and so do the reengineering principles USAID is now adopting. Over the next few years, all missions will need to revisit their plans, drawing on the skills and experience of USAID's partners, to ensure strategic objectives reflect new Agency policies and procedures.

(2) While many missions have utilized PVOs and NGOs in program implementation, few have focused on development of local capacity. As NPI is adopted throughout the Agency, missions will be expected to establish strategic objectives and to design and implement programs so that enhancement of local NGO capacity is included as an explicit goal.

(3) Missions will be expected in all appropriate projects to involve PVOs and NGOs as full partners in the project cycle, i.e. design, consultation with beneficiaries, monitoring/evaluation, and all aspects of implementation.

#### **E. Linkages to Small Business and to Local Governance**

The NGO empowerment objectives of NPI are closely linked to the other components of the initiative--Small Business and Local Governance. As a practical matter, development of local capacity in both these areas will involve assistance to and through NGOs with specialized interests.

In the case of small business, chambers of commerce, trade associations, and other NGOs will be logical choices for USAID assistance and capacity development. In turn, these NGOs will help field missions in assessing and reforming the enabling environment for growth of small business.

Similarly, in the case of democratic local governance, participation and advocacy will frequently be expressed through NGOs. These NGOs can have powerful influence on local and national governments--in some cases resulting in fractious relations. USAID missions will need to have an excellent understanding of relations between various levels of government and NGOs as they engage in policy dialogue, especially in the area of democratic governance.

In nearly all USAID countries, most NGOs will be working in areas not directly related to either small business or democratic local governance. In a real sense, these NGOs can be viewed as forerunners to greater activity in these areas. Many NGOs working in directly productive activities such as agricultural production and marketing will eventually spin off or otherwise contribute to the formation of small businesses. And in a real sense, the participatory nature of NGOs advances democratic principles and helps influence the decisions of local governments, even when political advocacy is not the explicit mission of the NGOs.

#### **F. NGO Empowerment and Sequencing of Activities**

NGO empowerment is an important USAID objective in all countries, even the poorest. Even where it is not possible to support small business or democratic local governance, it will be important for field missions to support NGO empowerment. This is especially true when one considers the broad definition of NGO which is adopted by this paper and by NPI.

## **II. PROGRAM DESCRIPTION**

There are two essential objectives to any program for NGO empowerment: a supportive enabling environment and a flourishing community of NGOs.

#### **A. Fostering an Enabling Environment for NGO Empowerment**

A pluralistic environment with a government sympathetic to increased public participation is of fundamental importance for effective NGO service provision and for NGO participation in national development policy formation. Many NGOs currently seek legal and regulatory conditions that provide greater political and economic freedom. USAID and other donors can help to create an enabling environment by working with host country national and local governments and/or

by strengthening NGOs which can then influence government decisionmakers. They can also assist this process by facilitating, where possible, cooperation and collaboration between governments and local NGOs.

Foreign donors cannot (and should not) give to the host country an enabling environment that fosters NGO growth and participation in national life. The transfer of institutional structures and organizational forms from one society to another has repeatedly failed to achieve anticipated results, often because the aims of such actions were those of the donors rather than the recipients. Reforms which improve the NGO enabling environment must be endogenous if they are to be effective and sustainable. There are no immediately applicable models that cover the full range of historical, social, and political variables that must be taken into account in the formulation of an effective policy framework for each country and for the different actors within it.

Governments, national NGOs, and other types of private organizations must work together to define the character of the legal and regulatory environment in a given country. Collaboration on identifying constraints and defining opportunities to eliminate them is itself a process that can synergize and strengthen the relationship between governments and private organizations. Participation in the process of legal and regulatory reform has other multiplier effects. It can build the analytical capacities of the individual organizations involved and provides practical experience for future dialogue.

Notwithstanding the necessity of each country working out the details of its own enabling environment given its unique set of circumstances, past experiences have shown there are a number of critical factors and processes which promote or hinder NGO formation, operation, growth, and effectiveness across various national settings. Donors such as USAID can play an important role by sharing with host country actors information on what has/not worked and why/not in other situations. This section of the paper identifies some of the factors necessary for an effective NGO enabling environment and recommends some mechanisms which donors might follow to assist forming a supportive legal and regulatory framework.

### **Legal Environment**

#### **\* Fundamental Law -- Freedom of Association**

An essential condition for the emergence and development of effective NGOs and a dynamic civil society is a legal framework that guarantees free association and assembly. These freedoms are already fundamental components of many liberal constitutions in countries in all regions of the world. But problems often arise in the application or administration of the laws (see section on regulatory environment). A lack of clarity and precision can leave legislation open

to interpretation by those charged with administering laws at a variety of levels. Whatever the application, however, the right to free association, including the formation of NGOs, is one of the pillars on which society's entire legal and regulatory structure rests.

#### **\* Tax Law**

The tax status of nongovernmental organizations can be critically important for their ability to grow and to take on new roles and responsibilities. Charitable behavior and voluntary activities are encouraged when NGOs have tax exempt status and when people are allowed to deduct contributions from their own taxes. Philanthropic traditions and voluntary participation vary from society to society, however, and thus it is not clear that favorable tax laws alone will stimulate behavior change. Still, clear and equitable tax laws are needed in many countries before authentic empowerment of local NGOs can take place. For those NGOs involved in directly productive activities, for example in agricultural production and marketing, it is essential that the tax code provide positive economic incentives. Local NGOs should have the same or more favorable tax status as international NGOs.

#### **\* Freedom of the Press**

NGOs and other civil society organizations are much more likely to prosper in a setting where there is free flow of information and broad parameters for public discourse. An unfettered and independent media is the linchpin and key indicator of informational freedom.

#### **\* Regulatory Environment**

Although laws affecting associational life may be favorable for NGO growth and development in theory, the ability of NGOs to flourish may be altogether different in actual practice. Does the government enforce these laws and administrative rules and do so evenhandedly? Lax enforcement and oversight or differential application can render formal constitutional rights hollow and reduce the prospects for NGO empowerment. In addition, many developing countries have very bureaucratic, centralized governance traditions that can also inhibit the vitality and influence of the NGO sector. These tendencies are simultaneously the cause and consequence of the historical weakness of civil society in many parts of the world.

Legal or administrative obstacles that inhibit NGO creation, efficacy and sustainability must be eliminated. Many countries require NGOs to register with the government in order to be officially recognized and accorded certain rights. It is important that this process not be too onerous, cumbersome, or expensive lest it

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defacto impede NGO development. Some test of 'reasonableness' can be devised taking into account such factors as the number of steps required, length of process, cost, and degree of bureaucratic cooperation.

Given the embryonic or fragile nature of the NGO sector in many developing and/or democratizing countries, it is also important that the law permit foreign funding for local organizations.

#### **\* Economic Environment**

Many local NGOs, particularly those with objectives in agriculture and rural development, depend for their success and sustainability on a favorable overall economic environment. If the government's policy is to tax agriculture heavily, then there is little an NGO can do to overcome this burden, even if the members are strongly motivated. Conversely, a favorable overall economic environment may be the single most important approach which government can pursue to encourage and empower local NGOs.

By making economic activity profitable, government encourages formation, capacity building and long-term success of local NGOs. Since, in many USAID-supported countries, nearly 80% of the population is employed directly or indirectly in agriculture, this suggests that the economic environment for agriculture is critical to the rapid growth and long term viability of the local NGO community.

In many countries, structural adjustment programs will be necessary to ensure appropriate economic incentives are in place so the economy can operate as efficiently as possible. Open trading systems are frequently an important component of the overall policy regime. A favorable economic environment is essential to sustained, broad-based growth; and sustained growth is essential for poverty alleviation. At the same time, the poor can be vulnerable during periods of structural adjustment.

To guard against suffering and help the poor escape from poverty, various forms of "social safety nets" should be considered an important part of the overall economic environment. In many cases local NGOs are well placed to manage these social safety nets.

#### **\* Guidelines for NGO Relationships with Governments and other Partners**

The late 1980s and early 1990s have witnessed an explosion in the creation of new NGOs throughout the world. In some cases this has come about because of widespread discontent with state-dominated social, economic, and political development structures. In other cases NGOs are being formed for reasons of economic self-interest, and the impulse to create an NGO can be understood as a

diversification strategy--one of many tactics that characterize peoples' attempts to generate income. Well-publicized donor interest in expanding support for NGOs has contributed to the process and fueled the creation of new NGOs.

The results to date of the new NGO phenomenon are mixed. On the one hand, the effectiveness of the NGO community in delivering services and broadening dialogue on the important issues of the day is legitimizing the worldwide movement. On the other hand, some of the less scrupulous NGOs are doing the movement disservice and actually hindering the empowerment of legitimate organizations. Still other NGOs are composed of highly capable individuals who can effectively implement a variety of activities and programs, but they are not necessarily serving as representatives of a broad-based constituency.

In short, the NGO community is extremely diverse and is continuously changing. New organizations are being formed and going out of existence all the time. In such an environment, an important component of an effective enabling environment for NGO growth and empowerment can be the establishment of guidelines for NGO relationships with governments and other partners such as international PVOs.

USAID and other donors can work with and support a variety of NGO consortia, nationally and internationally, to develop and disseminate statements of institutional principles and ethics of praxis. Adherence to widely accepted ethical guidelines will further legitimize, and thus empower, NGOs in the eyes of donors and host governments.

### **Possibilities for Donor Intervention**

The most important role for donors in fostering a favorable NGO enabling environment is to catalyze, encourage and support NGOs and host governments to collaboratively identify current problems and formulate mechanisms for their resolution. There is a need for information which might not be available to local actors, but if the reforms are to be successful and sustainable they must be endogenous. Donors can help enormously to create the space for an improved enabling environment, but they should be cautious about playing too large a role in filling the space that has been created. The following recommendations seek to foster and encourage local actors to find their own solutions.

#### **1. Support and encourage legal and regulatory reform**

USAID and other donors can help NGOs become more influential and self-sufficient by supporting NGO participation in efforts to reform national legislation that liberalizes NGO registration and operations, including favorable tax laws. Also

necessary for effective NGO action are continued efforts to reform political structures through adjustments that promote decentralization and more pluralistic local governments.

**2. Promote government - NGO collaboration**

In the past, many governments have looked suspiciously upon NGOs as dissident political forces rather than as complementary partners in development policy planning and implementation. The changing political climate in many areas of the world has already produced better relations between governments and NGOs in a number of countries, but more can be done to improve communication and collaboration. USAID can help legitimize national and local NGOs by consulting and involving them in all stages of the project and program cycle. USAID missions should consciously and actively encourage governments to trust and cooperate with national NGOs (and vice versa) by including both parties in meetings, conferences and workshops; on project/program design and oversight committees; and through joint NGO/government implementation of USAID-funded activities. Depending on the status of NGOs, encouraging this collaboration may take many forms from simple active inclusion through policy conditionality related to removing legal, regulatory, or other impediments.

Prospects for government-NGO cooperation may vary according to the level of government (i.e. national versus local) as well as the particular sector or issue area of NGO involvement. For example, service delivery NGOs frequently enjoy better relations with national or local governments than do overtly political organizations such as human rights groups which are more likely to have an antagonistic or adversarial relationship. The potential for collaboration may also hinge on the analytical research capabilities of the NGO; greater capacity probably makes them a more attractive partner and logically increases their prospective policy influence.

**3. Improve the "representativeness" of NGOs**

In the context of political liberalization, the more traditional social movements and other broad-based membership associations are gradually becoming more involved in the national development policy dialogue. But this change often occurs slowly and without any donor or government support and recognition. These institutions do not always look like the nongovernmental organizations that Western planners equate with civil society, but in a democracy the existence of millions of constituents gives these associations a political influence that is missing among the less broad-based, capital city NGOs. Regional and national federations of local grassroots organizations with common interests offer the greatest potential to identify existing development constraints and then transfer this information to the policy arena and to action-oriented programs.

USAID missions should seek to identify existing membership-based associations and social movements and discern their potential and willingness to become more involved in activities related to national development programs. Whenever possible, NGOs without a broad constituent base should be encouraged to ally with and assist in the federation of local grassroots organizations. USAID should work with existing organizations involved in issues such as human rights, civic education, and elections to develop programs that embody distinctively national approaches to civil society. There is also a need for caution, however, to assure that representation extends to those segments of the population, such as women and youths, who have not traditionally participated on an equal basis in decisionmaking and policy formation.

#### **4. Expand and improve NGO operational capacity**

There are no simple methods that can quickly transform the institutional capacity of local organizations. Capacity building is a real challenge and the need is great, but institution-strengthening takes a great deal of time, effort, and commitment; and there can be problems, such as the tendency to build dependency and/or overwhelm a fledgling organization with funds and demands. NGOs that are already effective in one area may lose their effectiveness if they are pushed to expand into other sectors. Experience to date suggests that institution building for its own sake does not work very well. Positive results have been obtained through partnerships between stronger and weaker organizations.

One effective technique is to build the institutional capacity of less experienced organizations through a combination of relevant training programs and gradual increases in responsibility and decisionmaking power. USAID missions should, whenever possible, provide the resources and institutional structures that allow for the participation of local NGOs in projects and programs in a variety of development sectors. Programs and projects should be designed to include training activities that build local NGO capacity while still reaching development objectives. There should be a commitment, together with a time frame, to hand implementation responsibility over to local NGOs, but decisions about how far and how fast to expand operational capacity should be made carefully with assurances that the individual NGOs are fully cognizant of how the changes may affect the organization.

#### **5. Expand and improve NGO advocacy capacity**

Nongovernmental organizations are at the heart of approaches to bring about more effective and more "public" management of state policies and actions that affect the public and private sectors. The accountability and transparency of state decisionmaking is improved through the informed participation of the organizations and institutions that constitute civil society. USAID and other donors can help

generate a more pluralistic public policy arena by supporting activities that augment the capacity of nongovernmental organizations to advocate on behalf of their constituents. USAID missions should include appropriate NGOs in all policy dialogues with governments and in other development policy decisionmaking fora. USAID should encourage, and when possible assist, in the creation and expansion of NGO networks, consortia and federations.

**6. Emphasize the need for transparency and participation**

NGOs exhibit huge variation in size, focus, capacity, and institutional organization. Many different social, economic, and political variables have combined to determine the historical evolution of individual organizations. In many cases, NGOs are highly representative of and accountable to local, widely-held interests. There are also unrepresentative NGOs with leaders steeped in hierarchy and personalized decisionmaking. These organizations may be effective in certain aspects of their operation, but they do not serve as model organizations for the type of behavior needed to build a democratic enabling environment in which NGOs can flourish. USAID missions should support local NGO institution-building activities that emphasize participatory decisionmaking and provide mechanisms to establish transparent operating systems.

**7. Support a positive economic environment**

USAID can play an important supporting role for NGOs by helping government understand the economic incentives which affect local production and marketing. This effort can and should involve small-scale producers and marketers, local NGOs, international PVOs/NGOs and other donors as partners. USAID can also assist with the design of "social safety nets." USAID can then support a policy dialogue which provides a positive economic environment.

**B. Supporting a Flourishing Local NGO Community**

Through NPI, USAID is interested in promoting NGO empowerment. A key objective in this regard is to foster strong and vibrant local NGO communities capable of promoting sustainable development. In order to pursue this objective we need to define just what we mean by a vibrant local NGO community, and decide how we would measure it. Bangladesh and South Africa are two countries that are often cited as examples of countries that have succeeded in creating a strong, active and vital NGO sector. Yet even in these cases it is not always clear exactly how the NGO sector is defined or what constitutes a strong NGO community.

This section of the paper proposes some initial ideas for key dimensions that we should consider in fostering a strong and vibrant NGO sector and how these might be measured. However, it is important to remember that assessing the

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strength of local NGOs and deciding appropriate interventions which will strengthen local capacity is highly context specific. What is significant in East Africa may not be relevant in Central America.

The first key question is how broadly one defines local NGO community. In developing countries there are a wide range of formal associations and organizations at the national and local level, and a plethora of traditional and informal groups at the community level. There are NGOs that have been established to deliver certain types of services, political advocacy groups, church groups, affiliates of international NGOs etc. It is very important to draw some broad boundaries around the local NGO community we are interested in strengthening in order to know what dimensions are most important and how we might measure them.

Julie Fisher, in her book, The Road from Rio, has a useful broad definition of the NGO community that includes two major types of NGOs. The first is "Grassroots Organizations" (GROs), defined as locally based groups that work to improve and develop their own communities through community-wide or more specific memberships such as women or farmers. GROs include both local development associations representing the entire community, such as village councils or neighborhood improvement associations, and interest associations such as women's groups or water users groups. GROs also include productive and profit making groups such as pre-cooperatives, cooperatives and other community based enterprises. GROs can either grow out of traditional organizational roots in the community or be established by an outsider such as a missionary or national or international NGO.

The second major type of NGO defined by Fisher is "Grassroots Support Organizations" (GRSOs) defined as nationally or regionally based assistance organizations, usually staffed by professionals, that channel international funds and provide technical support to communities other than their own to help them develop. Some of these are local "counterparts" to international NGOs, but the vast majority are local. Some GRSOs are membership organizations such as women's organizations, professional associations, and human rights organizations. But most GRSOs provide support to existing grassroots organizations or help create new ones. Usually GRSOs are created from the top down by international NGOs or host country professionals, but some are created from the bottom up by federations of grassroots organizations.

If one accepts a broad, inclusive definition of the NGO community like Fisher's, which includes a variety of groups and associations at the community level as well as formal NGOs, then there are many different dimensions that are important to the creation of a strong and vibrant local NGO community.

Another key question related to measuring NGO empowerment and the vitality of the NGO sector is the roles NGOs should play in contributing to sustainable development. Each NGO role provides measurement opportunities:

- The donor community has often traditionally seen NGOs as a useful alternative to host country governments for delivering services at the community level in priority areas of interest such as family planning, child survival, microenterprise development, environment etc. A major focus of donors in strengthening the NGO sector has been to develop the institutional capacity of GRSOs to plan, implement and evaluate development programs.
- NGOs at the grass roots level are important forces contributing to democratization and the strengthening of civil society. Because many local voluntary organizations represent the shared values and ideals of their members they can be important advocates and catalysts for social change.
- NGOs can also be sources of innovation and experimentation, testing new approaches to development problems. The NGO sector can also make a very important contribution to development by mobilizing productive energy and resources in the service of the community and its improvement. Organizations such as producers associations and cooperatives make direct contributions to sustainable development in specific sectors such as agricultural production.
- NGOs also have an important role to play in providing donors and governments with feedback on policies and programs, contributing to policy change and helping to shape the development agenda.

In sum, NGOs play many important roles in the development process ranging from the delivery of goods and services to communities to roles as catalysts, mobilizers, innovators, analysts and advocates. Any effort to strengthen the local NGO sector and to measure its vitality needs to consider these multiple roles that the NGO community plays in promoting sustainable development.

The following sections highlight some of the key dimensions that should be considered in promoting the development of a vibrant local NGO community and measuring its strength and vitality. It is followed by a matrix including proposed indicators to measure each of the different dimensions.

### **1. Number of NGOs and their Membership**

The rate at which new local NGOs are created is one of the measures of the vitality of the local NGO community. However, it is also important to look at the

relative rates of growth of the GRSOs and the GROs. A rapid rate of growth in the number of GROs is almost always a sign of strength. However, a rapid proliferation of small, weak, ineffective GRSOs organized in the hopes of capturing outside resources can sometimes detract from the vitality of the local NGO community.

The rate of growth in the membership of GROs, and particularly in what some call "member-accountable people's organizations"--such as cooperatives, women's groups and farmers associations--is a very useful measure of the vitality of the NGO sector. As more and more people of different kinds participate in these organizations, the sector becomes more dynamic.

## **2. Diversity**

Clearly it is a sign of vitality to have many different types of NGOs, representing different groups in the society, and to have them functioning in a variety of different sectors. If NGOs are to play a significant role in the sustainable development of the country then they should have strength in a number of the key sectors such as the environment, health and family planning, agriculture and enterprise development, etc. It is important to have service groups as well as production groups, women's associations as well as men's groups. It is also important to have the right kind of balance and complementarity between the GRSOs at the national level which can mobilize resources and exert political leverage with national government and the GROs at the community level.

Diversity is also key if NGOs are to play an effective and dynamic role as catalysts, innovators and advocates. A healthy and dynamic NGO community should have a real variety of voluntary organizations in each of the different sectors, representing a broad array of distinctive and even conflicting commitments, and contributing a wide range of different viewpoints and interests to the development process.

## **3. Interlinkages/ NGO Networks and Associations**

Linkages between NGOs at the local, national and international level can be an important measure of the vitality of the local NGO community. A crucial dimension of NGO empowerment is the ability of NGOs to work together and share information to promote development. National associations of NGOs (GRSOs) can provide a valuable means of information sharing and a common base for dialogue with donors and government. In some countries with strong NGO communities there are also national associations of NGOs at the sectoral level, such as associations of NGOs working in health, family planning or the environment. It can also be important to have horizontal linkages between grassroots organizations at the



local and regional level. Some examples include federations of cooperatives, federations of local development associations, peasant unions, federations of credit associations etc.

Another potentially important set of linkages is between local NGOs and NGOs in other countries in the region and internationally. One way this has happened traditionally is for international NGOs, including cooperative movements, to create local affiliates and counterparts which become part of the international network. Increasingly, international NGOs are now creating valuable partnerships with local NGOs, and helping to vitalize the local NGO sector through an exchange of information, experience and technical expertise. Also, in many parts of the world today there are associations and information exchanges between similar types of NGOs in adjacent countries in a region.

#### **4. Ability to Influence Government Policies and Programs**

Political and economic leverage is one of the most powerful measures of NGO empowerment. National associations of NGOs in key sectors such as environment, family planning, and agriculture are increasingly influencing government policy in many developing countries. This is also true of advocacy groups such as some women's associations. NGOs can influence policy many different ways--national meetings and conferences to debate and publicize key issues, NGO participation on government commissions and advisory boards, personal influence of NGO leaders with contacts in government, hiring of NGO leaders to fill key posts in government, etc.

NGOs can influence government policies and programs in many different ways at the national and local levels. NGOs can often influence government programs by example through the development of innovative new approaches and models that are adopted by government. Some governments, such as the Government of India, have adopted policies that a certain percentage of the budget should be set aside for direct support of innovative NGO schemes. Successful models are then picked up and replicated in the system.

#### **5. Relationship to the Private Sector**

An important dimension of the vitality of the NGO sector is the degree to which it has established sound and balanced relations with the private sector which stimulate cooperation and financial support. In a balanced relationship there should be an exchange of information and experience without jeopardizing the independence of the NGOs. One of the measures of this relationship is the number and types of linkages between private business organizations and other NGOs working in service delivery, public advocacy or direct economic production.

## **6. Independence**

This is an important dimension of NGO empowerment and is linked to political and economic leverage discussed above. In order to foster a vibrant and strong NGO sector, with NGOs that are free to speak out and press for change, it is important that NGOs (particularly the GRSOs) not be heavily controlled by donors and governments. But independence is difficult to measure. Financial independence is certainly one measure -- one can look at the percentage of GRSOs that receive the majority of their financing from local sources other than the government or donors, or percentage of total NGO resources provided by donors or government. One could also look at the number and types of issues that NGOs have raised for discussion with donors and government as another measure of independence. Since many community level groups and other grassroots organizations are small, democratic and independent by nature, the number of grassroots organizations (and proportion relative to GRSOs) is one potential measure of the independence of the local NGO community.

## **7. Degree of Participation and Responsiveness to Member Needs**

In order to have a vital and dynamic local NGO community it is important that NGOs be participatory and responsive to the needs of their members. This is particularly important to examine with respect to grassroots organizations and membership based GRSOs. Even though most of these NGOs are democratic and participatory by nature, this is not always the case, and they can become "ossified" over time, with a leadership group that becomes more and more insular and less responsive to members' needs. For example, this is sometimes the case with cooperatives, and cooperative federations, which start as highly participatory grassroots movements, but can become increasingly bureaucratized over time. As measures one could look at the frequency of changes in leadership of NGOs, how regularly membership rotates on the boards and administrative councils of the NGOs, or how regularly meetings are held with the membership.

## **8. Sustainability**

Sustainability is another key dimension, but the definition and measures of sustainability will vary somewhat depending on the type of NGO in question. If one is talking about a cooperative or other productive association, the rate of capitalization and generation of surpluses is one important measure and the growth of membership is another. If one is talking about a GRSO that captures international funding in order to provide technical support and training to GROs, more relevant measures of sustainability would be the diversification of its donor base, and percentage of operating costs covered by users fees. There are also other

important institutional dimensions of sustainability in addition to the financial. Good planning, management, administration and other aspects are also vital to the sustainability of GRSOs.

A traditional concept of financial sustainability is the ability of an organization to continue its operations without outside financial assistance. This can be applied relatively easily to community-based grassroots organizations with low costs that weren't initiated with large infusions of cash from donors or governments, or the cooperatives and productive associations. But for the large GRSOs that are highly dependent on outside donor or private sector funding for their existence, complete financial independence is very difficult to achieve and one has to look at other intermediate measures of financial sustainability.

One measure is the diversity of the donor funding base. Another is the percentage of operating costs covered by membership fees, users fees or other local revenues. Still another is the creation of endowments that can cover a portion of operating expenses. For many local NGOs involved in service delivery, direct financial support from government through subventions or contracts to deliver services (at times through formal incorporation of NGO programs in national government schemes) is an important dimension of sustainability. Appropriate fee structures can also be important to sustainability for service delivery NGOs.

## **9. Institutional Capacity**

In order to foster a local NGO community that can make an effective contribution to sustainable development, the creation of adequate institutional capacity of NGOs is vital. Institutional capacity encompasses many different capabilities. Key dimensions for NGOs carrying out projects and delivering management services include planning, management and technical capability. They need to be able to plan, implement and monitor and evaluate their activities effectively. It is important that the larger NGOs develop adequate managerial, financial management and monitoring and evaluation systems.

The relative importance of these capabilities depends in part on the type and level of organization. A large national GRSO providing technical assistance and training to grassroots organizations in a large region of the country will need the full range of strategic planning and evaluation, financial management, accounting and technical skills. These types of organizations also require professional technical staff, and the numbers and professional training of that staff is an important measure of their organizational capacity. But even the smaller community-based organizations need basic planning, organizational and accounting skills.

Institutional capacity is challenging to measure. One innovative effort to do so has been developed by USAID's Office of Private and Voluntary Cooperation (PVC). It has developed a PVO/NGO capability self assessment index that covers different dimensions of technical capacity, planning systems, and managerial systems (see matrix).

#### **10. Communications Capacity and Access to Information**

Sufficient NGO knowledge of the values and techniques of communication and adequate access to communication technology can also be very important to the creation of an effective and dynamic NGO sector. Good communications capacity helps to stimulate intra-sector networks and horizontal and vertical linkages among the NGOs, and facilitates the sharing of information and resources among NGOs. This capacity should also contribute to the maintenance of good intersectoral relations with the public and private sectors and enhance NGO's broader educational function in civil society as a whole. Increasingly, exchange of information at local, national and international levels is a critical element of sustainable development.

#### **11. Innovativeness**

This dimension may be somewhat difficult to define and measure but it is an important aspect of a strong and vibrant local NGO community nevertheless. It is significant in part because one of the key contributions NGOs can make to the sustainable development process in their countries is to adapt or to design and test new approaches to solving tough local development problems. In order to measure this, one could look at the number and types of new approaches (or models) developed and tested in different sectors. Even more important, one could look at the number of new approaches that have been successfully replicated by the NGO in other parts of the country, or that have been adopted and replicated by other NGOs or the government. A further dimension is to look at the number of model approaches that were started on a small scale and have been successfully "scaled up" to a regional or national level.

C. NGO EMPOWERMENT: MEASURING THE VITALITY OF THE LOCAL NGO COMMUNITY

DIMENSION

MEASURES/INDICATORS

|   |  |
|---|--|
| <p>1. Size of the Local NGO community.</p>            | <p>a. Annual Growth in the Number of NGOs--particularly Grass Roots Organizations (GROs) *</p> <p>b. Annual Growth in the Membership of GROs</p>   |
| <p>2. Diversity</p>                                   | <p>a. Number of Women's Associations and women led NGOs.</p> <p>b. Number of Grass Roots Support Organizations (GRSOs) ** and GROs by Sector.</p> <p>c. Number of NGOs representing minority ethnic groups</p>   |
| <p>3. Interlinkages/NGO Networks and Associations</p> | <p>a. Number of NGO Umbrella Organizations</p> <p>b. Membership in NGO Umbrella Organizations</p> <p>c. Number of local NGOs who are members or affiliates of International NGOs</p> <p>d. Number of GRO based federations (Cooperative Federations, LDA Federations, Peasant Unions etc.)</p> |

## DIMENSION

## MEASURES/INDICATORS

|   |   |
|---|---|
| 4. Ability to influence Government Policies and Programs      | <p>a. Number and significance of Policies/Regulations adopted as a result of NGO efforts</p> <p>b. Number of Fora for regular NGO Government Consultation (Consultative Groups) Advisory Councils etc.</p> <p>c. % of Govt.Budget allocated for support of NGO programs</p>   |
| 5. Relationship to the Private Sector                         | <p>a. Number of private businesses making financial contributions to NGOs.</p> <p>b. Value of contributions (cash and in kind) by the private sector to the NGOs.</p> <p>c. Number of NGOs that have been sponsored by/created by private businesses.</p> <p>d. % of GRSOs with representatives of the Private Sector on the board.</p> |
| 6. Independence   | <p>a. Number of GRSOs that receive the majority of their financing from local sources.</p> <p>b. Number of community based GROs.</p>  |
| 7. Degree of Participation and Responsiveness to Member Needs | <p>a. Frequency of changes of leadership of NGOs</p> <p>b. Rotation of membership on NGO Boards, and Administrative Councils</p> <p>c. Frequency of GRO meetings with the membership.</p>   |
| 8. Sustainability   | <p>a. % of GRO and GRSO revenues generated by local services</p> <p>b. % of GROs and GRSOs charging Membership and User Fees.</p>   |

**DIMENSION**

**MEASURES/INDICATORS**

|   |   |
|---|---|
| <p><b>9. Institutional Capacity</b></p>                             | <p>a. % of GRSOs with full time professional technical staff</p> <p>b. % of GRSOs with audited financial records.</p> <p>c. % of GROs that have received technical assistance &amp; training in financial management and accounting.</p> <p>d. % of GRSOs with transparent and functional financial, accounting, personnel and management systems.</p> <p>e. Number of GRSOs capable of developing their own training materials and providing training to other NGOs.</p> |
| <p><b>10. Communications Capacity and Access to Information</b></p> | <p>a. Percentage of GRSOs linked to Internet.</p> <p>b. Percentage of GRSOs with fax or E-mail capabilities.</p> <p>c. Percentage of GRSOs with newsletters or publications to share information with other NGOs.</p>   |
| <p><b>11. Innovativeness</b></p>                                    | <p>a. Number of model approaches pilot tested by sector</p> <p>b. Number of model approaches that have been successfully adopted and replicated by other NGOs or Government.</p>  |

## **D. Funding Vehicles for NGO Empowerment**

The appropriateness of the following funding mechanisms will depend in large part on what we want to achieve in working with our PVO partners and NGOs. Clear objectives and analysis of the target groups (U.S. PVOs, local PVOs, NGOs) will help to refine the choices for appropriate funding.

For purposes of this section of the paper, PVOs are defined as U.S. PVOs registered with USAID; LPVOs are local, non-U.S. PVOs registered with USAID. NGOs are here referred to as local, nongovernmental organizations not registered with USAID.

The following mechanisms are alternatives available for direct development of PVO, LPVO and NGO capacity.

### **1. Matching Grants (solicited)**

Matching grants are one co-financing mechanism usually centrally utilized but could also be used by missions to fund PVOs to build the capacity of the PVO to deliver services or to perform as an intermediary to NGOs. These grants generally require a 50-50 match both as a financial capacity building tool and as a commitment to the activity by the PVO. Matching grants to individual PVOs are management-intensive and, while supporting field activities in priority sectors, the main objective is strengthening the organizational capacity in technical, management, and planning to become proficient in a sector such as microenterprise and/or to transition from one sector to another.

Typically 3-5 years, matching grants have been implemented through cooperative agreements since 1987. Through use of this flexible, capacity building method, U.S. PVOs are making the transition from direct service provision to intermediaries.

### **2. Direct Grants (solicited or unsolicited)**

Direct grants are usually at the field level and have proved effective in building local institutions, encouraging self-reliant community development and supporting private sector growth. Typically 1-3 years duration, direct grants provide a mechanism for missions to work directly with NGOs that are registered with USAID, also referred to as LPVOs. Cost-sharing of 25% from non-USG sources has been a feature of direct grants and should still be encouraged, although this is no longer a requirement (US Policy Determination I6).

Direct grants may be offered for technical assistance, organizational development, etc. to: 1) U.S. PVOs for project implementation, 2) U.S. PVOs for capacity building of LPVOs and NGOs through subgrants, 3) to LPVOs for project



implementation, or 4) to experienced LPVOs for capacity building of smaller LPVOs or NGOs through subgrants.

### **3. Umbrella Models (solicited)**

Most commonly, an "umbrella" is a funding mechanism designed to deliver relatively small amounts of USAID funds to each of a number of organizations through one financial award to a lead organization. A cooperative agreement or contract is received from USAID for subsequent smaller subgrants to NGOs or PVOs for project implementation, with the lead organization responsible for administrative and technical assistance to subgrantees. These could be mission or centrally funded.

The lead organization may be a PVO or local NGO, an association of PVOs or NGOs, or a contractor. A mission could conceivably have direct funding arrangements with a number of PVOs/NGOs, as in Bangladesh, and through them, USAID resources can reach hundreds of local NGOs. The recent CDIE study (May 1995) assessing USAID's management of PVO/NGO activities cites the Mission's Family Planning and Health Services Project which provides direct funding to a total of five organizations--two PVOs, two local NGOs, and one international NGO--which in turn provide funding to 106 local NGOs operating at over 300 project sites.

Among the factors to consider in choosing a lead organization are characteristics of the local NGO sector, the presence of PVOs and nature of their local relationships, compatibility of USAID's objectives with the lead organization's, and government relationships and cooperation. The CDIE study noted several special factors relating to umbrella mechanisms:

- Capacity building of subgrantees is an increasingly important part of umbrella activities, which may include TA, training in fundraising, membership development, networking, management, guidance in strategic planning, and on USAID and donor systems and procedures.
- Primary advantages for NGO subgrantees are opportunities for networking and institutional strengthening (with assistance from the lead organization).
- There are some management savings for USAID, since only one agreement is managed instead of several. However, the management burden may be substantial should the mission staff decide to review and approve all subawards to assure that funding to subgrantees is equitably distributed.
- While cost effective and management friendly, umbrella mechanisms are cited by mission staff as difficult to oversee if the lead organization does not have adequate monitoring capabilities. Selection of the lead organization is key.

- Umbrella grants may favor larger PVOs with previous USAID experience. Experience with local communities is important for effective work with smaller, diversified NGOs. Regional and multi-country approaches may make it difficult to work within specific cultural and sociopolitical contexts. A PVO with experience in one region may not be appropriate to work with the local community in another region.

- Lack of coordination and communication were frequently cited by PVO, NGO, and USAID respondents to the CDIE study. NGOs may feel isolated from lead PVOs managed from the U.S. Clearly defined roles and lines of authority regarding USAID, the lead organization and subgrantees are recommended.

- Financial accountability for subgrantees is a concern when the lead organization does not provide adequate assistance and monitoring.

- If the umbrella is a consortium of U.S. PVOs, resource allocation should be determined and transparent at the outset.

#### **4. Contracts**

Contracts are instruments used for the acquisition of property or services for the direct benefit, or use, of USAID. As opposed to assistance instruments (grants and cooperative agreements), which may be awarded only under certain circumstances and for certain purposes, a contract may be used in any situation where USAID determines it is appropriate in accordance with Federal Acquisition Regulations (FAR) and USAID Acquisition Regulations (AIDAR). Contracts may be awarded competitively or non-competitively based on strict guidelines and procedures in the FAR and AIDAR.

In certain cases, contracts may be appropriate mechanisms to accomplish the purposes of NPI. For example, a contract could be awarded to a PVO or other organization for training and technical assistance services to build the capacity of PVOs or local NGOs, or to operate an NGO network or clearinghouse. NGOs may be awarded contracts to supply specific services, such as community needs assessments, baseline surveys, etc., which may help to build their track record and increase their capacity to deliver such services. There are many other instances in which contracts could be appropriate funding instruments to further capacity building; however, this should be analyzed carefully in relation to the restriction of flexibility in the award and management of contracts under the FAR and AIDAR.

#### **5. Modified RFA (solicited and unsolicited)**

It has been suggested that USAID could benefit more from the experience and ingenuity of the PVO community by accepting more unsolicited proposals. The management burden imposed by the review process would make this unattractive unless USAID accepted less prescriptive review criteria. Alternatively, creative

responses could be facilitated by requesting proposals that address specific sectors or capacity building, criteria for NGO empowerment, etc. A second modified RFA approach could be a two-step process whereby a concept paper is solicited, submitted and reviewed before successful candidates are invited to develop formal proposals.

#### **6. Consortium Funding**

Consortium funding is an approach used by SIDA (Sweden), the Ford Foundation, and others. Donors contribute to a single fund, to be administered by the lead agency, so that NGOs receive and administer funding in a simplified manner. Standard formats for financial reports, progress reports and project monitoring are used, and the recipient sends the same reports to all donors. Since USAID's strengths are its in-country presence and ability to directly fund local NGO activities, this approach may not work well. However, this model allows for longer-term funding which is critical to effective NGO capacity building and sustainability and might be worthy of consideration.

#### **7. Performance Block Grants (solicited)**

For purposes of conducting activities in a region or sub-region, for both technical and NGO empowerment, USAID would provide a large central grant to a PVO. The grant would be based on an RFA with standards and criteria established. The PVO would be responsible for reporting on administrative management, progress and achieving planned results and local sustainability. An advantage of this approach would be longer duration, reduced overhead costs and enhanced opportunity for sustainability. USAID missions would be responsible for strategy development, analysis, negotiation with the government, donor coordination and results oversight.

#### **8. General Support Grants (solicited)**

Under this model, USAID would support large grants to PVOs to cover all the activities they conduct with us. These would be used for NGO empowerment in a variety of sectors and/or for focusing on institutional strengthening, targeted strategically in a variety of countries where sustainability appears bright. The PVO would be responsible for reporting to USAID on progress. To the extent USAID would be supporting programs, not projects, it would be important to develop appropriate indicators for impact. Through this approach, USAID could reduce overhead costs and direct its resources toward strategy development, analysis, government-to-government and possible multilateral liaison as well as performance monitoring. USAID would be able to move funds early in the year, then negotiate "work orders" for the PVO in individual countries through field missions. Multi-year partnerships would be negotiated with possibilities for renewal or expansion.

Less attention would be directed to process and more to substance and impact. Advantages to PVOs include concentration on expertise, both technically and managerial, and consolidation of overhead in one grant with greater staff planning.

**9. Network Support Grants**

Support for the formation and strengthening of networks of PVOs and NGOs to facilitate the sharing of lessons learned and outreach to developing affiliates or partners, e.g. SEEP, could be expanded.

**10. Joint USAID Programs**

Joint programs between two bureaus to provide support for capacity building, e.g. PVC with Global, and a country-specific project, such as in child survival, might be utilized, although management coordination would be important.

**11. Technical Assistance to PVOs/NGOs through Universities**

Technical assistance around a sectoral theme or approach, e.g. Johns Hopkins for child survival, should continue to be considered for use within NPI. Through the JHU TA, a range of U.S. PVOs with little or no child survival experience have developed considerable expertise over a ten-year period and are increasingly engaged in working with community-based organizations. Similar arrangements could be developed around sectoral themes such as agricultural productivity.

**12. Endowments**

Endowments are vehicles to fund NGOs to do valuable development work and to increase their long-term stability and financial self-reliance. There are two kinds -- those which cover all operating costs of NGOs, and those which provide only enough income to cover core administrative costs, with the expectation that income for operating programs would come from additional project grants. In both cases, the endowment increases the local organization's sustainability and allows it to make long-term decisions on staff development, research, strategic program choices and policy reform. Organizations do not have to reconsider these decisions at the end of every grant cycle.

To establish an endowment, USAID would make a large grant to a local NGO or coalition of NGOs; that entity would then invest the funds locally or offshore. The goal is that the NGO would operate wholly or partially on the income derived from the investment.

Endowments could also be used to establish a local grantmaking foundation, which is the approach now being used by the Ford Foundation in several countries. It would be possible for USAID to join donor consortia to support such vehicles for

long-term impact. The clear advantage is long-term financial sustainability. The constraints include hurdles such as initial funding requirements, determining organizational forms, making wise investments, governance issues, trustee education, and accountability.

### **13. Bilateral Programs to Initiate NGO Units**

USAID would provide bilateral assistance to a MOH or other governmental unit to partially finance the development of an organizational structure to strengthen the local private and voluntary sector. The unit would provide sub-grants to NGOs in a variety of sectors throughout the country. This successful model was supported in India from 1981 until 1989. A USAID evaluation documented the effectiveness of this collaborative relationship between USAID and GOI, resulting in a strengthened government capability to support health projects carried out by local NGOs.

### **14. Parallel Funding**

A form of joint funding, USAID can help PVOs leverage funds by arranging with other donors to fund specific development activities. Due to USAID's need for separate accountability, parallel funding has been a preferred joint funding approach, whereby each donor has a separate contract or assistance instrument with a PVO for separate aspects of an activity. While this allows USAID to account for its resources separately and ensure control over their use, philosophical, administrative and logistical problems can pose difficulties. These include lack of agreement between USAID and other donors on what organizations and activities merit combined funding; differences in accounting standards and requirements; duplication of reporting; and possible differences in procurement practices, regulations and disbursement periods.

### **15. Debt Swaps**

Also called debt conversion, debt swaps allow PVOs, universities, cooperatives, agricultural research institutions, and other not-for-profit entities to use USAID funds to purchase external debt for inconvertible currency and redeem that debt at some premium in local currency. This mechanism has significant potential for providing additional resources for development, at the same time helping developing countries to reduce their external debt and debt servicing burden. Constraints on debt swaps relate to their budget costs, lack of knowledge among USAID staff and PVOs about debt conversions, and little available knowledge about lessons learned.

### III. NEW MANAGEMENT VEHICLES

#### Program Interventions/ Management Reforms

The specific program which USAID and its PVO partners will pursue builds on the new USAID/PVO Partnerships Policy and on activities already underway in several "Leading Edge" missions. The goal is rapid broadening and deepening of existing USAID program directions and the development of NGO programs more closely integrated with the other components of the NPI -- small business and local governance.

The focus of the effort must be the field. USAID missions need to see NGO empowerment as a new way of achieving their sustainable development objectives and to adjust the way they implement their programs accordingly. In addition, USAID/W will put in place support instruments and institutions which will facilitate the successful implementation of the NGO empowerment component of NPI.

While much can be accomplished through rigorous application of Agency processes -- especially as envisioned in the reengineering exercise to be implemented October 1 -- it is also true that additional resources will be required.

#### Field Activities:

1. USAID field missions--working with governments, local NGOs, U.S. and other international PVOs where appropriate, and other donors--will assess the legal, regulatory and economic environment for NGO empowerment. This assessment should be conducted by all USAID field missions and should be regularly updated.

2. USAID field missions, working with PVO/NGO partners and other donors should assist recipient countries to create an enabling environment favorable to NGO empowerment. Each country will differ, so this effort must be approached with full understanding of local issues.

3. In managing its programs in all sectors, USAID will seek opportunities to support development of local NGOs. In many cases, particularly in child survival, microenterprise, family planning and other service delivery programs, USAID utilizes PVOs or even local NGOs as service providers, but does not necessarily seek to enhance local capacity or sustainability of local partners. Where appropriate, USAID will build indicators of strengthened institutional capacity of local NGOs into procurement and assistance documents as a performance result. Where appropriate, USAID field missions will include training to improve management capacity of local NGOs in procurement and assistance documents.

4. USAID missions will actively involve PVOs and local NGOs in formulating strategic objectives for the U.S. development assistance program. USAID strategy documents will be approved only if they clearly reflect PVO/NGO participation.

5. USAID missions will assess opportunities for involving PVOs and NGOs in program design and as program implementation partners. Missions should report on this assessment in their program design and implementation documents.

6. USAID missions will utilize their training and exchange programs for training local NGO leaders. In some cases, this might involve bringing participants to the U.S. to learn from U.S. PVOs/NGOs. USAID will provide opportunities for appropriate training in areas such as technical skills development, planning, management and evaluation, and communications and advocacy.

7. USAID missions will seek opportunities to strengthen local infrastructure which supports NGO empowerment. This can include training facilities, media for networking and communication, and support for governmental activities such as an NGO ombudsman.

**USAID Central Programs:**

1. USAID, working with the PVOs and other donors, will become a learning center on the role of NGOs in development. This effort will include a modest professional staff dedicated to NPI and select financing for research. This effort will include development of effective means for measuring NGO empowerment, including development of indicators of institutional capacity.

2. USAID will develop "rapid assessment" and other techniques to assist in evaluation of the NGO community and the enabling environment for NGO empowerment. This material will be developed in consultation with USAID's partners, including other donors, and will be widely available. USAID will seek multilateral sponsorship for publication of this material.

3. USAID will develop comparative materials which illustrate the measures taken by other developing countries to ensure a favorable enabling environment. This material will also be structured to demonstrate the benefits which such an environment has for sustainable development. This material will be developed in consultation with USAID's partners and will be widely available. USAID will seek multilateral sponsorship for publication of this material.

4. To help facilitate a positive enabling environment, USAID will develop "partnership models" for governments and NGOs to use in conducting relations. These models will demonstrate the positive effects of a clear understanding of roles and responsibilities.

5. USAID will work toward an international standard for local NGO registration requirements in developing countries. The goal will be a standard which is simple, inexpensive, and can be met in a brief time frame.

6. USAID, working with U.S. PVOs, will identify and support or--if necessary--create an entity which can identify non-traditional NGOs in the U.S. which are interested and able to assist strengthening of NGOs overseas. Over time, this entity may support or facilitate capacity building of these non-traditional U.S. NGOs.

7. USAID--working with U.S. PVOs, select local NGOs, and bilateral and multilateral donors--will identify and support (or, if necessary, create) entities which will facilitate South-South dialogue and exchange of ideas among NGOs. These entities might be regional or global. Over time, these entities might facilitate development of regional NGOs and support capacity building for local NGOs.

8. USAID will expand its donor coordination capacity with respect to work on NGO empowerment. USAID will seek the support of other donors and the multi-lateral institutions in work on the NGO enabling environment, on the partnership models and on the entity to support South-South interaction among NGOs.



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**NEW PARTNERSHIPS INITIATIVE**

***SMALL BUSINESS PARTNERSHIP***

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**NEW PARTNERSHIPS INITIATIVE - SMALL BUSINESS PARTNERSHIP**

**EXECUTIVE SUMMARY**

The Small Business Partnership is one of three components of the New Partnerships Initiative (NPI). This Report was prepared by the Small Business Working Group and chaired by G/EG, with participation from USAID staff, business associations, USAID contractors/grantees, the World Bank, the InterAmerican Development Bank, and others.

A focus on small business partnership, within the context of NPI, is a logical next phase to the microenterprise strategy. Much of the policy and technical guidance developed under that initiative applies to small business. There is a strong **development rationale** for such a focus. As small businesses grow in size and number the economic benefits spread widely through the community, particularly to women. Small businesses tend to be in industries that are labor intensive and rapidly exploit new market opportunities. They create jobs, particularly for the poorest, and are typically strong change agents, as markets force innovation. They are numerous and competitive and will become engaged in the policy process and technology improvement when they are offered significant services. Income generated by small business is spent on education, health, shelter, nutrition and other quality-of-life improvements. Linking small business development to democratic decentralization and the strengthening of nongovernmental actors promotes an efficient and effective civil society. Broad-based economic activity fosters broad based civil society.

The **policy and institutional environment** is viewed as the central determinant for the success of small businesses. Transparency, competition, and efficiency should be the most important goals of reform programs. The legal and institutional continuum, public and private, national to local, is imperfect at all levels, and requires investment. The issue is where and how to invest in capacity building to accelerate and sustain the process. The interrelationship between economic and political reform argues for a focus on local, nongovernmental actors, with assistance provided to the maximum extent possible through nongovernmental organizations (NGOs). When NGOs are strengthened to deliver valuable services, different parts of the community become committed to their support. USAID programs have shown that the business community can be engaged in ways that build credibility and support for local NGOs and help them establish long-term networks with the U.S. NGO and business communities. Capacity building of business associations, advocacy groups, cooperatives, think tanks, media and

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others should be a primary program objective. Women in business warrant special attention, as they face a disproportionate share of barriers.

The speed and impact of reform can be accelerated by creating new links among groups, both public and private, at all levels. USAID should foster access to global information, capital, business services, and business transactions networks, as well as to similar groups that can facilitate technology transfer and lower the cost of the traditional technical assistance programs. The links must focus on low-cost access to resources, especially to information and personal networks. Groups include, national and local governments, universities/think tanks, business associations, small business development NGOs, and others. Access to a wide variety of U.S. volunteer resources can also be made available through these networks.

USAID programs focus on policy and institutional reform, both public and private, at all levels, from the broadest macro policy change through assistance directly to enterprises. Forty of the 41 missions reviewed in the Annual Report on Program Performance, 1994 have economic growth objectives. Initial reports indicate that approximately 10 percent (@\$200 million) of the budget is for small business programs. Accurate baseline data on the technical and financial composition of the programs is needed.

Policy guidance on small business development within USAID needs to be strengthened. For example, Encouraging Broad Based Economic Growth: USAID's Strategy should be revised to provide specific guidance relevant to this new small business initiative.

We also suggest that USAID use the knowledge gained through the microenterprise initiative to develop technical guidance, performance indicators and efficient mechanisms to engage the NGO community in small business development. While there are many examples of "lessons learned," a more comprehensive, strategic analysis of prior experience is needed.

Existing programs for business firms can be linked to those that strengthen NGOs and reform policies and regulations, to broaden democratic practices and ensure more effective support of policy reform. Programs that increase the ability of small businesses to enter markets and provide greater access to resources are beneficial. Long-term benefits accrue to the U.S. economy when U.S. firms are linked to opportunities in developing countries. Volunteer business networks have resulted in self-sustaining relationships.

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The available information does not permit any broadly projected funding scenarios. However some new programming ideas should be further developed, including, inter alia, 1) an electronic technology based capacity building initiative to supplement current technical assistance efforts; 2) a model women's business/political/volunteer network; 3) capacity building for general business associations and think tanks that can support a market oriented advocacy roles; 4) policy reform efforts in collaboration with other donors to stimulate a competitive banking system; 5) a mechanism for delivering present business assistance through appropriate local NGOs; 6) an expanded use of credit guaranty authority to promote commercial bank lending to small business; 7) an initiative to stimulate more volunteer, U.S. NGO and contractor collaboration; 8) multi-country small business environment ranking report; and 9) encouragement of the expansion of existing sectoral experiments in health, population, environment and agriculture that support small business development and linkages to NGOs.

**Networks** of U.S. and other developing countries NGOs can be promoted and used to develop new partnerships in the policy reform and institution building process, empowering a broader set of local and international stakeholders.

Business assistance programs can be modified without significant cost to **link the three NPI components**. Different sets of institutions are represented in each of the three, but opportunities for cooperation exist. Capacity building, information sharing, common client servicing, and other areas hold much promise. For example, capacity building in business associations should be linked with local democracy programs to build NGO strengthening and with US technical volunteer networks to allow more effective services for local members.

A system for **evaluation and feedback** already exists, but a special effort is necessary to build on that system to summarize existing data and fill gaps in the knowledge base. In particular, the recent experience in the ENI region should be tapped. **Performance indicators** for small business programs, within the Economic Growth sector, need to be developed. The evaluations and related documents of USAID small business programs, and the **experience** of other donors, should be reviewed to provide further guidance for future interventions in policy strengthening and goal setting.

Most programs provide technical assistance, either through "procurement" (USAID tells you what to do) or through "assistance" (USAID supports what an NGO wants to do). There is widespread support for further exploration of reengineering of the assistance system. Suggestions include, single USAID/NGO agreements that permit multiple sources of funding. For example, IESC has some

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**40 agreements to provide the same service, with longer term commitment of funds. Development of small business results packages to foster obligation by result, rather than by input, and designation of an independent assistance ombudsman.**

**The Small Business Working Group supports building a comprehensive initiative, rapidly integrating certain policy, NGO strengthening, and small business assistance efforts. This approach can accelerate development impact and leverage existing resources, while giving local institutions a better chance for long-term sustainability. The Working Group also suggests a long-term strategy, including revision of policy and strategy statements, a PPC/CDIE led comprehensive sector-specific review, an examination of ways to use the budget process to strengthen small business as a preferred development strategy, further reengineering of the USAID/NGO relationship, and the continuation of the current NPI Steering Committee/Working Group structure to champion the process.**

## **I. POLICY GUIDANCE**

### **A. DEVELOPMENT RATIONALE**

Small businesses make an important contribution to real incomes, economic growth, and equity in developing countries. Unfortunately, in all but a few countries this contribution falls far short of its potential, due in large part to subtle and not-so-subtle biases in the policy and regulatory environment that place them at a disadvantage against large and established firms.

Although economies of scale give large firms a natural advantage in many manufacturing industries, small firms operate alongside large ones in many others, including food products, clothing, furniture, and building materials. Small firms play an equally important role in many services, where economies of scale are often less important. In both manufacturing and services, small firms tend to be more oriented toward production to meet local tastes and needs, including the needs of middle- and lower-income people for simpler, less costly products and services than those consumed by the upper classes. Small businesses are particularly prevalent in rural areas, where they serve the needs of farmers and other lower-income people, producing farm implements, processing agricultural outputs, renting machinery, etc. Small businesses' attention to the needs of lower-income consumers and producers promotes equity within the developing countries.

Small manufacturing firms tend to use more labor-intensive production techniques than their larger competitors, a pattern that enhances their role as sources of employment in countries with abundant and rapidly growing labor forces. In many cases, small businesses help absorb relatively less-skilled workers than those hired by larger firms. In both respects, small businesses contribute not only to overall prosperity, but to a more equitable distribution of income, yielding important non-economic benefits in terms of social and political stability.

As important as these "static" benefits are, one cannot fully appreciate the potential contribution of small firms without considering their dynamic role in the economy. In all economies, rich and poor, small businesses tend to have short life-expectancies, as the market winnows out all but those best-attuned to the needs of their customers. However, the few small firms that survive this process include some of the most dynamic and most responsive to emerging demands in the local and international economy. Given a level playing field for new competition, some of these survivors will emerge as the medium- and large-scale businesses of the future. Likewise, the process of identifying a market niche, establishing a small business to fill it, and struggling to make that business survive serves as a training ground for entrepreneurs, including many whose lack of formal credentials would make it hard to find a position in a large firm. The flow of entrepreneurs emerging

from a vigorous small business sector can greatly add to the economy's overall flexibility and growth potential.

Unfortunately, in most developing countries a wide range of legal, regulatory and policy biases impose heavy costs on small businesses and limit the ability of more efficient emerging firms to compete with established businesses. In particular, privileges given to a few favored firms often limits access and competition.

The banking systems lack competition, are highly protectionist and choose not to serve small firms. There are norms and values that mitigate against charging full-cost interest rates to smaller firms. It's good business but it looks bad, and many people, including bankers, are not comfortable with it, even though it's the only way to make lending to small business profitable. Banks don't know much about effective lending to small business--both the appraisal skills and the technology are lacking. Collateral laws also make it difficult for small businesses to obtain loans.

Import license requirements and official allocation of foreign exchange made scarce by an overvalued exchange rate make it hard for small manufacturers to get the imported inputs they need. Investment licensing requirements can preclude new entry into sectors deemed "overcrowded." Subjecting business decisions to bureaucratic approval in these and many other areas presents irresistible opportunities for official corruption, and gives established firms the chance to collude with officials to keep new competitors out.

Urban zoning rules impose minimum size restrictions for business sites that are out of the reach of small firms, while complicated land titling laws make it difficult to develop and obtain secure tenure to land. Small businesses that operate in violation of these rules find it difficult or impossible to obtain water, power, and sewer hookups. Access to urban services is made more difficult where subsidized pricing for those services limits funding for system expansion to meet new demand.

Interest rate ceilings on loans prevent banks from raising rates to cover the higher unit costs of small loans and the greater perceived risks of lending to new customers. As a result, banks prefer to deal with large, established businesses, while even promising small enterprises are starved of institutional credit. Meanwhile, barriers to entry in the banking system keep costs high and discourages the cultivation of new clients, including small businesses.

In many countries, USAID has helped governments to remove or alleviate many of these policy and regulatory distortions. World Bank structural and sector adjustment programs have also helped: import and investment licensing, for

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example, are much less widespread than in the past. However, a wide range of subtle barriers continue to burden small businesses, even in countries that have undertaken policy reforms at the macro level.

Finally, in addition to the constraints posed by policy and regulatory barriers, small businesses in most developing countries suffer from the absence of effective supporting institutions. In most cases, small entrepreneurs have no effective sources of information on market opportunities at home or abroad, on improved production and business management techniques, and other basic information. Some of these functions can be carried out cheaply and cost-effectively by government offices operating under appropriate performance incentives, while others are more appropriately left to for-profit service providers and/or to associations of small entrepreneurs.

## **B. PARAMETERS**

One of the first issues is the definition of small business, both in developing countries and in the U.S. The current Microenterprise Initiative uses five or fewer employees, so it follows that the definition for small business should start there. The issue for this Initiative is how large a firm qualifies. Considering the World Bank, OECD and other definitions, it appears reasonable that firms with up to 100 employees should be included. But country context must be a factor in the definition, e.g. Uganda versus Russia, allowing for flexibility in the definition.

In addition to numbers of employees, value of assets and gross revenues could be factors. For example, a three person law firm would not be considered an appropriate microenterprise target for a financing program. At the same time, a rattan organization might hire as many as 100 people to help weave baskets, but would not be considered a medium-sized enterprise in terms of its structure, fixed assets or technology. For our purposes, to define a small business we must consider how it applies technology, management processes, human resource applications, relations with the external environment, and the unique characteristics of different industries within which the firm operates. Flexibility in the definition is key

It should be left to USAID missions to determine, within broad parameters, which businesses qualify. In the U.S. we will use Small Business Administration categories. One of the problems with any fixed definition is that it may preclude some otherwise developmentally sound interventions.

In defining U.S. partners we want to have as broad a definition as possible. It should include small businesses, private voluntary organizations (PVOs), associations, universities (including community colleges), state and local governments, cooperatives, and think tanks. Consideration should be given to

including large businesses in the U.S. as partners, as there are opportunities to engage them in partnering arrangements. For example, multinational agribusinesses have technology and resources that can be useful in partnering with small businesses.

### **C. RELATION TO ONGOING PROGRAM**

The biggest payoff for NPI will be in adjusting current programming to increase capacity building at lower levels of society.

As most missions already have programs aimed at the economic policy environment, one of the first tasks for the agency is to analyze the content of such programs to determine the extent to which they have a direct impact on small business development, and, more importantly, the extent to which they comply with the tenets of NPI. The data requested from field missions was not available at the time of the drafting of this report, making it difficult to suggest courses of action for the agency. This Working Group suggests that a joint Global Bureau/ PPC analysis be undertaken to determine the extent of the USAID program affecting small business and the extent to which the programs fit within the thrusts of NPI.

The review should also include an analysis of the relationships between the other two components of NPI.

### **D. RELATION TO OTHER NPI COMPONENTS**

Coordination with the other components of NPI is also critical as decentralization of political and economic decision making is critical to sustainability in both sectors. Of particular importance is the decentralization of decision making as it relates to the well-being of small business. The institutions that affect the political and economic policy must include the voice of the small business sector, both at the national and at the local levels. Democratic decisionmaking, as it relates to economic policy, is key to equity and sustainability. The most effective way to identify and change biases against small business is for small business to organize and participate in the policy process.

The Small Business Component's focus on building capacity within the business community must parallel other efforts in countries to devolve political power to local government. Common elements in the capacity building effort must be identified and mechanisms to have them complement one another must be developed. Common clients, information sharing, access to technology and shared strategies are among the many elements to be examined.

At the strategic level, i.e. in AID/W, technical guidance, performance indicators and flexible delivery mechanisms that foster capacity building through NGOs and complementary programming must be developed.

### **E. SEQUENCING TO LEVELS OF DEVELOPMENT**

As is true of the definition of small business, the interventions of the donor community should vary from country to country and from industry to industry. Small business development in Eastern Europe will differ substantially from that occurring in other regions of the world, particularly in Africa. However, many of the lessons learned will apply equally across regions. Sequencing must consider the levels of political development, natural resources and human capacity, markets --both internal and external--and other factors. The complex interaction between the levels of political, economic and institutional reform in each country argue for sequencing strategies that are highly country specific.

## **II. PROGRAM DESCRIPTION**

This program proposes to accelerate the reform process, and lower the overall cost of the effort, by promoting new forms of partnerships between U.S. and developing country NGOs. Horizontal links (i.e. South-South) and those between like groups (e.g. trade associations) can speed the growth of technical capacity. New electronic networks can be established to speed the flow of information and technology necessary to enable nongovernmental groups to participate in reform efforts. The policy environment in developing countries is seen as the most critical component of the initiative. In most developing countries distorted economic, legal, financial, judicial, labor and other policies that make up the enabling environment limit the growth of small business. The effectiveness of small business promotional programs sponsored by governments has proven questionable, and direct support for small businesses has a mixed record of success. The weakness and/or absence of supporting institutions, information and voice further hamper reform efforts. Building local capacity to identify the distortions that particularly constrain small business, and increase the demand for reforms are important goals of NPI.

The program will target barriers that constrain small business creation and growth. Within the overall reform process, we want to create the capacity of local groups to identify the constraints and to press for reform. The voice for selecting the targets must be that of the small business sector, aided by information links to other groups. A concerted effort of association building through NGO partnering will be undertaken.

In addition to the policy environment, small businesses lack skills, technology, financial and other resources necessary for success. Many of their needs can be met by creating links to partners, either in the U.S. or in other developing countries. But it is no longer feasible for donors to bear the full cost of the transfer of skills and technology. This program will seek to engage the U.S. business community in self-sustaining partnerships with developing country firms, by creating information links.

The program will seek to create a **Women's Business Network** using existing U.S. organizations and reaching out to businesswomen as volunteers. The network would be implemented first on a country level, with the goal of creating future regional and global links. By coordinating local business development efforts through a series of **Women's Business Centers**, the network would enable U.S. donors, PVOs, associations and businesses to implement complementary, rather than duplicative, women's business initiatives.

New uses of technology, such as Internet "webs" that link groups around the world, will be explored. Providing access to the information electronically, rather than the traditional consultant transfer route, can have an enormous impact on capacity building. University-to-university, association-to-association and other types of partnerships will be created to take advantage of the immense amount of information available in the U.S.

The program will seek to build on existing successful small business programs, and to link the small business concept to sustainable development in differing USAID sectors (e.g. environment, health and agriculture) with a focus on integration of program objectives.

With thousands of entries on small business information in USAID's information system, the program will review USAID and other donor experience to determine a set of "best practices" to inform the strategic planning and intervention systems in USAID.

#### **A. OBJECTIVES AND PROGRAM INDICATORS**

The economic growth activities have yet to undergo a thorough development of objectives and program indicators. Many indicators have been suggested, including numbers of jobs created, numbers of businesses assisted/formed, numbers of laws/regulations changed, amount of financing made available, increases in exports, increases in revenues to firms, and many others. The Working Group suggests that, as part of the continuing effort of NPI, the Global Bureau and PPC develop a set of indicators specific to small business development, within the broader context of the economic growth indicators yet to be developed.

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## **B. CURRENT ACTIVITIES**

Forty of the 41 missions studied in the 1994 CDIE performance impact report had strategic objectives in the economic growth category, ranging from the broadest macroeconomic reforms to assistance to individual businesses. Institutional reform in both the public and private sectors marks nearly all programs. Initial data indicate that nearly 10 percent (@\$200 million) is invested in small business development activities. However the data is sketchy, and does not reflect a collection or analysis that measures activities within the framework of NPI, e.g., amount done through NGOs, amount aimed at local, private capacity building, among others.

One of the first tasks for NPI is to analyze the Agency portfolio to develop a baseline of data, both technical and financial, to measure the dimensions and impact of the programs, and to inform future strategic and programming decisions regarding NPI. Listed below is a summary statement of each Bureau's small business portfolio.

### **1. Global Bureau**

Each Center in the Global Bureau maintains a portfolio of projects aimed at promoting the growth of small business. They include programs to improve the economic and regulatory environment, e.g. macroeconomic/sectoral restructuring in areas such as financial sector, privatization, and investment/export promotion; direct assistance to developing country firms, e.g. management and technical training and technology transfer; institution building for participation in policy formulation, e.g. empowerment of business associations and economic think tanks; assistance to microenterprises to foster their growth to small business status; and portfolio credit guarantees through the banking sector to increase flows of capital to the small business sector; agribusiness support; health/population services and financing; and environmental technology and services.

The programs that promote small business growth cross sectoral lines. For example, in health and population the PROFIT and Contraceptive Social Marketing projects both aim to increase small business participation in the delivery of health and population services, by supporting local businesses/associations with training, loan guarantees and other services. The International Fertilizer Development Center promotes the creation of a competitive small business system for the distribution of fertilizer. A series of small grants to U.S. manufacturing associations is promoting ties between U.S. small businesses and counterparts in developing countries, seeking job creation in both the U.S. and the developing countries.

## **2. Africa Bureau**

Virtually all Africa Missions currently have private sector projects that support either directly or indirectly small business development. Most projects have a policy reform component. These activities are designed to provide a more hospitable business environment and focus on trade and investment policies, administrative procedures, tax policies and access to foreign exchange. Other Mission projects facilitate the development of non-traditional exports by providing new technologies, products, feasibility studies and marketing assessments for small businesses. In the area of agribusiness, USAID has funded the development of producer and marketing associations as well as assisting with the introduction of new crops and other agricultural products.

To assist with the financing of small business enterprises, the Africa program has provided technical assistance to establish and strengthen local financial institutions, and finance the development of new institutions such as venture capital funds as well as credit and savings associations and rural banking institutions. All Africa Missions have funded both short-term as well as long-term training for small business entrepreneurs.

Through its Washington funded programs in support of small business, the Africa Bureau recently established the \$100 million Southern Africa Enterprise Fund. This Fund will provide both debt and equity financing for small and medium enterprises in the Southern Africa Region. The Fund will be complemented by a new technical assistance project to provide training and other assistance essential for the success of these new businesses. The West African Enterprise Network is a regional initiative supported by Washington to assist business men and women to achieve policy reforms, from the ground up, which affect small business private sector development.

## **3. ANE Bureau**

The Asia Near East program recognizes includes support to small business development in all sectors. Efforts to support the growth and sustainability of small businesses are undertaken from two perspectives: assistance in creating an enabling legal, regulatory and financial environment, and assistance in strengthening the organizational and technical skills of small businesses. ANE addresses the business environment through its policy reform and finance projects. Assistance in the development of balanced regulations and expanded access to credit provide businesses with the setting needed for growth. Assistance supporting joint ventures with U.S. companies or supporting the development of business associations and chambers of commerce provide the opportunities and exposure businesses need to move products and better understand the market.

#### **4. ENI Bureau**

The **ENI Bureau** places heavy emphasis on establishing a fair, transparent and efficient business environment and focuses on capital market improvements and legal/regulatory reform. An important part of the program is working with national and local government to improve government-business relations and to encourage a supportive business environment. Missions actively monitor the business environment to provide feedback and policy advice is an important component of the program. To expand this policy feedback projects actively work with firms and business associations to encourage communication and structure information on experience and problems.

Assisting small firms in adapting to the new market environment is a critical focus of Bureau activity in this transition environment. Support is provided to small business development by working directly with entrepreneurs to improve business operations and management, improve market information, and improvement of training programs, and encouragement of business associations. Joint ventures with U.S. firms is encouraged.

Encouragement is given to local business associations both for policy advocacy and for the provision of business services to small entrepreneurs. Linkages between local associations and international organizations are likewise encouraged.

Finally, improvements in access to capital is encouraged by support to credit unions, enterprise funds, and general improvement in financial services.

#### **5. LAC Bureau**

Support for microenterprise and small business development is one of the key action items under the Summit of the Americas. Small businesses play a major role in contributing to output, employment and the sharing of economic benefits within the region's economies. In Bolivia, for example, some 60,000 small entrepreneurs have taken out loans totalling \$30 million and they have paid them back. The Bolivian bank, created through USAID's support, is now self-sustaining with a \$60 million portfolio and extends more loans than any other financial institution in the country.

In view of the importance of this sector, USAID promotes regional and bilateral microenterprise projects as well as coordination with the Inter-American Development Bank in the latter's design and implementation of some \$500 million in projects over the next five years.

USAID's support for small business in Latin America takes three forms: (1) technical assistance and training projects for microenterprise; (2) support for agribusiness cooperatives, often with a view to bolstering non-traditional exports; (3) institutional strengthening projects which channel small business technical assistance and training through local trade associations and small business groups, thus helping bolster sustainable institutions in the process; and (4) policy projects which, by strengthening developing countries' enabling environment, create a more favorable business climate for the growth of small enterprise.

Small business programs in Latin America take place at both the regional and bilateral level. In FY 1995 the Bureau approved a \$500,000 in regional funding through a PVO, ACCION International, to assist PVO lenders to microenterprise to become financially sustaining. The Bureau also provides region-wide support through the LACTECH Project to work with Missions in supporting land privatization, non-traditional exports and other activities which strengthen small farmer revenues. Both these regional activities are part of a broader Bureau strategy which attempts to "graduate" small businesses to regular, commercial providers of financial, marketing and other services.

At the country level, small business programs take a variety of forms. Some examples include:

- o **Chile:** A \$980,000 Small Business Pollution Prevention Project aims at reducing industrial emissions at their source. 17 industrial audits have been completed to date, with some indicating savings of up to \$100,000.

- o **Ecuador:** USAID/Ecuador provides \$3 million to Fundacion Ecuador which has produced studies and agreements with the government to both liberalize foreign investment regulations as well as to deregulate state restrictions on microenterprise growth.

- o **Honduras:** The \$6.5 million Small Farmer Agribusiness Development Project has directly affected some 2,800 farmers with administrative and financial strengthening of local agribusinesses.

- o **Jamaica:** The \$2 million Small Business Export Development Project provides technical assistance, training and market information services to small businesses and agricultural producer groups while simultaneously improving the Jamaica Exporters Association's capacity to effectively deliver services to its members.



**C. LESSONS LEARNED**

USAID has devoted considerable attention over the years to learning about a country's macroeconomic policy and its effect on small business development. Specific program development components integral to small business development include small business skills, technology, finance, and other resources. These programming elements were identified from evaluations of successful and unsuccessful projects linked with recommendations for future programming efforts. Even though a comprehensive review of the sector is suggested, past experience leads to several principles and priorities that should guide efforts under this initiative. They include:

- Concentrate on existing businesses
- Foster business-to-business consulting linkages
- Create business links with U.S. firms
- Develop small business advocacy groups
- Promote local capacity building
- Strengthen the usefulness of NGO small business assistance programs
- Focus on land, property rights, and collateral reform
- Promote commercial lending from banks to small businesses
- Develop short-term lending services
- Avoid venture capital as a financial tool for small business development
- Provide market access and information
- Charge fees for any direct training and technical assistance provided to small businesses
- Concentrate assistance on technology development, transfer, and adaptation
- Provide management training
- Provide skills and services training
- Provide technology and niche marketing training
- Develop trust with small business owners
- Provide services to firms in a flexible and timely manner
- Invest in highly visible successful models
- Avoid working with governmental small businesses support organizations
- Promote the value and usefulness of local intermediaries

This list illustrates the lessons learned from USAID program experiences. To design a detailed, innovative, and sustainable program requires a review of small business projects from USAID and other donors projects to ensure that strategic and budget plans meet the needs of the small business community for the developing and emerging market economies. It is recommended that PPC and G be charged with undertaking the review.

#### D. NEW PROGRAM IDEAS

The initiative proposes to increase developing countries access to technology, both hard and soft. Hard technology, in the form of equipment, materials and other goods, and soft technology, such as management skills, advocacy and information, needed by small businesses, are best transferred business-to-business. The U.S. is the largest repository of such technology, and USAID must find new ways to encourage U.S. business to transfer such technology. Creating a welcome policy environment in developing countries for U.S. business participation is important, and reforming the environment can be accelerated with U.S. private participating in the process. Transaction driven policy reform, e.g. investment in telecommunications restructuring, is driven by the interests of those who seek long-term involvement in a sector, and represents one of the best ways to target and press for specific sectoral reforms. New uses of electronic communication must be used to link U.S. sources of information, to transfer intellectual capability from the U.S. to developing countries to provide the analytical underpinnings of coherent reform. Decentralization of access to technology will promote decentralization of political and economic participation.

Partners in the U.S., both profit and nonprofit, are critical to the success of the initiative. The strategic political and economic interests of the U.S. would be best served by maximizing the participation of U.S. actors in the small business development process. The U.S. contains the largest private resource base in the world, with immense capabilities to be brought to bear on small business development worldwide. The globalization of the world economy and the USAID role in developing that economy provide unprecedented opportunities for U.S. firms. USAID must also take advantage of this phenomenon to promote nongovernmental ties that create economic opportunity in both the developing world and in the U.S., and that are sustainable by mutual business interest. USAID must also engage the policy voice mechanisms used in the U.S. to assist in developing a like capability in developing countries. Business associations, think tanks, universities and other nonprofit organizations can play a crucial role in promoting participation in the process.

**Strengthening the policy dialogue:** A more vigorous, more public and more sophisticated approach to the policy dialogue is critical. Invigorating and spreading the involved network should include participation by the public, private, business, agricultural, labor, media, academic and NGO communities. But that will require improved media, institutions and fora to support a higher quality of information exchange. This means better data, more related analytical resources for surveys, staff training, fora, publications, and information technology (computer, reproduction, information access, and telecommunications equipment).

**Gender-based biases** are a particular problem in developing countries. The initiative must recognize this and make special efforts to remove those biases at every level. The reform of the enabling environment must include women's participation in the identification and reform of constraints. Capacity building efforts must ensure that women are included at the leadership level. Property rights, business regulations and other policies that affect the growth of small business must be made gender-neutral. USAID must take advantage of the network of women-owned/women-operated businesses and advocacy groups in the U.S. to advance the reform process. A concerted effort to engage these groups must be a component of the initiative.

**Business association development in developing countries:** Increased and strengthened U.S./host country business association ties are an effective means to promote market and democracy friendly policy reforms. Such ties help to both improve the business climate as well as providing profit-generating linkages between U.S. and host country economies. Learning works best when it's business-to-business, and especially within the same sector. Businesspeople learn more from each other than from trainers or consultants. Business-to-business learning also leads to identifying expanding market opportunities.

**Business associations linked with NGOs and local governments in the policy dialogue:** NPI's impacts through developing country business associations should be substantially enhanced by association collaboration in the policy dialogue with NGOs and local governments. All of these parties will generally have an interest in reforms that facilitate the modernization and growth process, and NPI will substantially augment its impact by facilitating such collaboration.

**Evaluation of donor experience in business networking and association development:** An evaluation should be carried out which looks at the characteristics of donor support to business associations and networks. The purpose would be to identify those characteristics which typify and distinguish the successful from the unsuccessful activities to develop business networks and associations. The evaluation might learn from the one recently dealing with the characteristics of successful microenterprise finance institutions. Considering successful and failed cases of business association development would enable identification of both characteristics of winners as well as factors that seem to cause losers.

**Evaluation of policy reform networks and tactics:** A review of evaluations of policy reform networks should be considered, to assess whether it is necessary to update what is known about the best means of pursuing policy reforms. Experience that well might be reviewed includes that of USAID's support to the relatively popular Implementing Policy Change (IPC), the Institutional Reform and the Informal Sector (IRIS), and the International Center for Economic Growth (ICEG), the

Enterprise Network of West Africa, the Center for International Private Enterprise (CIPE) and the Consulting Assistance for Economic Reform (CAER) Projects.

**Donor collaboration:** As it implements this NPI for small business, USAID should work carefully to assure that other donors are well coordinated with USAID's program. This will be especially important in the policy reform area, where the leverage brought to bear on reforms, and its impact, will be substantially greater if the donor community is well synchronized.

**Policy reform priorities:** Clearly both the macro and the small business bias reforms will need to be promoted. Preferably, both levels of policy could be pursued simultaneously. If, however, an initial priority must be determined, it must be for macro reforms. If the macro economy is broken, then there is much less to be gained in attempting to fix the small business subsector, for it appears heavily dependent upon the macro economy. After the macro issues are reasonably favorably resolved, then, for economic and political democracy reason, strong attention needs to be turned to the biases against small business.

**Privatize business associations:** In countries where industry or trade associations are dominated by the state, donors should work to fully privatize such associations, or when that is impossible, develop parallel, fully private organizations representing the interest of their members and train them in techniques used by U.S. organizations to foster membership loyalty and support ("back-selling").

**Technology Transfer:** Transferring appropriate technology to developing countries is not a new idea. Too often, however, such transfers have come cloaked in the guise of technical assistance. Government funds spent on technical assistance have sustained a cadre of consultants who specialize in providing it, but such expenditures do not necessarily put new or appropriate technology in the hands of small entrepreneurs in developing countries. Efforts to foster direct business-to-business transfers of technology may hold more promise, but the question remains as to how such links should be made.

With declining donor resources, there may be opportunities for strategic coordination among donors and government agencies to pool resources and agree on common objectives with respect to the transfer of information technology to developing countries. For example, at the request of the White House, USAID's Africa Bureau has undertaken the "Leland Initiative" to provide Internet connectivity for Africa. Likewise, in the past two years, the United Nations' Commission on Trade and Development (UNCTAD) has established trade points in over forty countries and has set up a worldwide electronic clearinghouse, of "electronic trade opportunities" in Thailand to match buyers and sellers of products. UNCTAD's initiative hopes to reduce the transaction costs of international trade by as much as \$100 billion by the year 2000. While the Leland Initiative and UNCTAD work on

connecting countries to the internet, USAID's NPI might focus on the "last mile" of extending Internet connections from single nodes in countries to smaller cities, towns, and even rural areas.

It is also conceivable that some countries might leapfrog intermediate stages of development in telecommunications. Rather than follow their predecessors' costly and time-consuming process of laying copper wires, some developing countries are opting for cheaper cellular connections and relay towers that offer greater reliability of service in urban areas. To reach more remote locations, governments must still lay wires, but now can choose modern digital switches that can carry visual images and data as well as sound over broader bandwidth transmissions.

As the U.S. moves from the industrial to the information age, other countries, even less developed ones, need not lag far behind. If semiconductor chips one day replace petroleum as the raw material that fuels a country's development, donors should ensure that developing countries are in a position to make the adjustment.

**Importance of Training:** To transfer technology to small businesses in developing countries, donors must determine the potential interface between small entrepreneurs' work habits and their use of technology. An intervention that relies on technology should first understand the entrepreneurs' situation and then design the application of technology based upon this understanding. Alternatively, donors can train the entrepreneurs to change their behavior to adopt existing technology. In either case, one cannot simply focus on the technological hardware.

Expenditures on training may exceed those on hardware by several times, depending on the situation, as efforts are made to boost the information culture in lesser developed countries. Lack of literacy could pose an obstacle to promoting access to the information technology. Translating documents, using pictures, and even voice messages can help address this issue, but "low-tech" solutions exist as well. For example, in some African locations educated, but physically handicapped, individuals man phone stations and help the illiterate through the steps for making calls.

**Containing Costs:** Just as donors tend to focus on the hardware, there is also a tendency among both donors and recipients to want the latest gadget and most advanced system, when simpler, older, and less expensive communications technology might suffice. For sharing information and brokering small business services, e-mail should be sufficient. African countries rely on a system called Fidonet to transmit e-mail and access the internet. Fidonet is electronically analogous to a ham radio network where operators relay messages along and there

is no control over the time of message receipt. Fidonet can operate over poor phone lines and users need only the most basic of computers and modems.

**Internet E-Mail:** In many locations, access to the Internet is virtually free: users pay the cost of a local phone call if they are located in the same city as the internet node. Other users must pay the cost of calling into the capital (or node) city to relay messages even if they are corresponding via e-mail with a neighboring town. One of the more promising applications of internet is the creation or enhancement of local markets. Small businesses and others in developing countries suffer from poor communication networks and a shortage of information regarding, for example, prices for supplies and products or cargo information for sharing shipments. Just as UNCTAD's work can reduce trade transaction costs, extending the internet to small entrepreneurs in rural areas could rationalize their high costs in conducting business. Going on line could enable small businesses to find a market niche or broaden their existing market.

Not every business needs a phone line, modem, and computer to access the Internet. Community or business associations can set up a simple computing center where members can share a single computer, modem, and phone line. Such trade information exchange centers are in the process of being set up in some locations. For example, USAID/Egypt has proposed a new activity called "Business Link" that would connect via a computer network the major Egyptian business associations and business development organizations (including private sector foundations engaged in small and microenterprise development). The network would permit the members to communicate easily within Egypt and access both domestic and international electronic data services. The American Chamber of Commerce would house the system's server. The Chamber is currently developing the specifications for the system.

Internet e-mail messages and attachments, whether done locally or internationally, are cheaper and more reliable than faxes. E-mail also levels the playing field for small businesses competing for orders. Potential buyers or sellers on the receiving end of an e-mail message cannot discriminate against a small upstart business because large and small businesses all look the same over e-mail.

**Information Technology:** Another approach to encourage the transfer of technology involves linking developed and developing country businesses directly. Developing countries are becoming increasingly important as an outlet for U.S. products and as a source of imported inputs. Large and small businesses in the U.S. will engage small businesses in developing countries as trading partners or joint producers when they see it is in their interest and ability to do so. Technology, and specifically information technology, can catalyze such linkages by informing U.S. companies of opportunities with small businesses in developing countries and by giving these small businesses access to a global marketplace.

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Electronic commerce will enable small businesses to one day benefit from the telecommunication techniques already used by large multinational companies.

**Smart Card Technology for Small Business:** Credit cards embedded with microchips, known as "smart cards" reduce the costs of monitoring and servicing loans to small businesses in Swaziland. The technology has not caught on in the U.S. because U.S. banks can rely on efficient telecommunications services. The cards require only a modest initial investment and offer greater flexibility and convenience to the customers. Within a closed system, such technology provides security in financial transactions that would otherwise require cash.

**Coventures:** Coventures, or non-equity sharing cooperative relationships such as licensing agreements, contracts, or consortia, are probably better suited to technology transfer for small businesses than joint ventures where a separate legal entity is created and jointly owned by the venture partners. Acquiring technology and know-how is a prime motivation for cooperative ventures. Coventures ensure the partners' independence while making use of the existing assets and abilities of each business. Small businesses are least able to afford the upfront costs of developing ventures such as travel, feasibility studies, and consultant fees. Communications technology is ideally suited for lowering some of those costs. Small businesses are generally reluctant to pursue international ventures and exploit opportunities with LDC firms because of their lack of experience and knowledge in doing so. Intermediaries can reduce the costs of searching for partners and familiarize firms with the process of developing ventures. Eventually, electronic commerce "bulletin boards" may be able to replace such live intermediaries.

In 1995, USAID will launch a major new **environmental initiative** in LAC (Environmental Initiative of the Americas) and Asia (Asia sustainable Energy Initiative) that will seek to engage and develop small and medium businesses in environmental activities. We will look to the U.S. private sector as development partners in this initiative. The initiative will be strengthening environmental standards, reducing urban pollution, and promoting energy efficiency. The program will provide technical assistance to small businesses to come into compliance with standards, develop small businesses that can conduct industrial audits, and encourage environmental enterprises.

In the health sector, we would build on existing activities to expand support to small businesses in two areas. First, we would expand social marketing activities in the population field, and increase support for small business activities in family planning and reproductive health. This would include credit programs, technical assistance to small firms, and assistance in import services. Second, we would expand support for small food enterprises to improve food preservation and safety, marketing and product development, business practices, and micronutrient fortification.

In the agroenterprise sector, we propose bilateral and central assistance to individual business and their associations be provided. Assistance would focus on making domestic and international marketing transparent (establishing affordable market price and transportation information systems); linking budding and potentially viable agroenterprise concerns with markets, services and providers of materials; and, strengthening the political voice of small entrepreneurs through more effective associations.

Global bureau already has loan guarantee authority, but it has not been used for small business activities. We would propose to expand those guarantees to the small scale sector for financing modernization of small businesses. Where there can be links to U.S. business, the U.S. firm may be able to leverage credit and reduce risks to local banks by co-signing the loan under the guarantee arrangement.

The development of industry standards and efficient ways of enforcing such standards is central to the modernization of the economy. Business groups need to be involved in this process procedures need to be simple and transparent. As these standards are industry specific, there is a strong case for USAID to work actively in those sectors where we have a comparative advantage -- environment, agribusiness, and health.

#### **E. PROGRAM LINKS TO OTHER AREAS**

To maximize the impact of NPI, it is suggested that any program indicators be developed in coordination with the development of indicators in other programmatic areas of interest to USAID. It is undeniable that the success of efforts to develop a small business sector in a country is directly linked to the efforts in the areas of democracy and governance, the environment, health/population/education and others. One of the key tenets of NPI is empowerment through a participatory process. Developing small business as a part of health and education, and other, delivery systems can be an important factor in the overall sustainability of those efforts.

Small business development in the priority areas of health, population, agriculture and environment hold much promise for development. Privatizing delivery systems and creating markets in these areas could spur the development of small business providers and reduce the burden on government budgets. Non-governmental providers are more efficient, more innovative and more responsive to the needs of the community.

#### **F. EVALUATION**

As the Small Business Working Group began to collect information for this report, it became clear that there is no single body of evaluative evidence to guide

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the development and implementation of a Small Business Partnership within NPI. While there is over 30 years of experience in the area, and a portfolio of hundreds of individual project evaluations, there has been no effort by the donor community to analyze the body of information of small business development. The Working Group suggests that PPC/CDIE consider a small business evaluation series, looking at various aspects of the development experience. For example, there has been no evaluation of the experience in developing business associations, an important part of any effort to engage businesses in the reform process.

### III. NEW MANAGEMENT VEHICLES

#### A. POLICY

USAID's Strategies for Sustainable Development (March 1994) has three Strategic Goals and Areas of Concentration. Of the three--Strengthening Markets, Expanding Access and Opportunity, and Investing in People--only the second mentions "small business," as is the case in the section on Programs and Methods. Nonetheless, hundreds of project claim small business as a target. Individual country programs frequently have multiple projects, implemented by multiple agents. Creating a coherent small business initiative within USAID will be difficult, and will take time. Revision of the Strategic Guidelines and central policy coordination are necessary to strengthen the strategic position of "small business" within USAID. A requirement for a small business component of USAID mission strategies, tracked through the budget system, and a coordinated internal-USAID program, such as the population and microenterprise programs, is suggested to increase the impact.

Encouraging Broad Based Economic Growth: USAID's Strategy (March 1994) cites three "strategic goals and areas of concentration". The first, strengthening markets, is a good general statement on the need for healthy markets as a basis for sustainable growth. Within this strategic goal there is no mention of small business as a priority component of that strategy, leaving missions the option to pursue reform efforts on a much broader front. If there is to be a focus on small business, the section on strengthening markets should be revised to include small business as a priority. This would bring a strategic focus to small business, which is now lacking in the USAID strategy.

The second goal, expanding access and opportunity, does state that "USAID will pay particular attention to expanding economic opportunity.....by helping to promote microenterprises and small business...."

The third, investing in people, cites areas such as reproductive health and primary education for girls, but contains no reference to investing in people in the small business sector.

The "Operational Approaches" of "Participation, Institutional Development and Sustainability" make no mention of small business as an approach.

The section of "Programs and Methods" whose sections mirror the "strategic goals" (i.e. strengthening markets, expanding access and opportunity and investing in people) mentions small business only in the section on expanding access and opportunity.

The section on "Measuring Results" could also be strengthened, as small business is cited in only one section, asking "Have the flow of technical and support services to small businesses...improved....?" This section could be strengthened to define the results the agency seeks in small business programs.

In summary, while small business is mentioned in the Strategies, it is not given sufficient priority to carry its weight as a special initiative. If field programs are expected to take NPI seriously, more weight should be given to small business in the Agency strategy statement.

Some other suggested actions are:

- 1) A statement of policy by the Administrator, to the effect that the New Partnerships Initiative has been adopted by the Administration and all USAID elements are expected to help meet its objectives. More specifically, an endorsement of the concept that the small business component of the initiative is a logical complement, and necessary follow-on, to USAID's Microenterprise Initiative. To wit, that success in the microenterprise arena is to a significant extent defined by the graduation of microenterprises into small businesses.
- 2) An endorsement of the small business component by the regional and central bureau AAs, as a complement to the Administrator's policy statement.
- 3) A cable to the field from the Administrator, stating the above and directing missions to assess their portfolios and determine whether modified or new activities will contribute to the small business component.
- 4) A small business sector review as part of the annual budget submission. A policy of donor coordination should also be developed. The significant structural adjustments sought by NPI cannot be achieved without the cooperation of the rest of the donor community. USAID requires the support of other major donors to provide consistent policy leverage, technical assistance, and resources. The

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adjustments we seek are increasing in importance to other donors, but approaches to adjustment are too often ad hoc and "projectized" -- often unrelated to general country strategies. The priorities of the donor coordination strategy of the Working Group are, first, to build on the growing interest in decentralization, participation and entrepreneurship to reach a donor consensus that empowerment is a pre-requisite to such change, and, secondly, to work at the country level to coordinate approaches to change. The OECD Development Assistance Committee (DAC) Working Group on Participatory Development and Good Governance will be the focal point for such coordination. The World Bank, through the Inter-Donor Working Group on Participation, and the Consultative Group to Assist the Poorest, the European Union, and other multilateral organizations will be targeted for coordination. USAID missions will be charged with coordinating at the country level.

## **B. PROCESS**

If empowerment of local NGOs is a goal of NPI, the fact that only one of the 14,000 Egyptian PVOs is registered with USAID is indicative of the problem facing us. Prudent management requires that one of the elements of capacity building at the local level be administrative management. More efficient systems, including umbrella grants, shared accounting/administrative centers, and others should be explored.

USAID should explore new ways of doing business with its partners. As the agency moves to reengineer, it should consider the current cost of doing business with its partners. Relationship with partners should be streamlined by considering actions such as obligating funds by strategic objective, in one agreement with any particular partner. For example, The International Executive Service Corps, has had as many as 45 different agreements with different parts of USAID to accomplish essentially the same objectives.

USAID and ACVFA may want to revisit the final report of the September 1993 Task Force on Streamlining the Procurement Process and Reducing Administrative Requirements to test current practices against the findings of the report.

**Attachment A:****WOMEN'S BUSINESS NETWORK**

In order to build local capacity and support an environment conducive to small business development among women, NPI would develop and support a Women's Business Network. This network would be implemented first on a country level, with the goal of creating future regional and global links. By coordinating local business development efforts through a series of Women's Business Centers, the network would enable U.S. donors, PVOs, associations and businesses to implement complementary, rather than duplicative, women's business development initiatives.

Each country network would consist of a series of computer linked Women's Business Centers. Each Center would house a computer lab/center, clearinghouse/library and provide consultations for local businesswomen.

The computer/lab center will provide computer training in basic computer applications that support daily business operations (word processing, database and financial spreadsheets). Once training has been provided, computer access is imperative to program sustainability. Each center can provide women access to a variety of computer/technology based services, either on a fee-for-service basis or as a service for members. The potential for cost recovery or funds to expand the program exists.

In addition to basic computer training, e-mail and on-line program training will be conducted. This element of the program would strengthen general and specific research efforts; promote the development of sustainable business-to-business links and mentor relationships (identified through the linkage/mentor component); create on-line local, regional, and global fora for networking, information sharing, brainstorming, developing advocacy groups for policy reform; and serve as a mechanism to identify additional areas for U.S. business participants.

A clearinghouse/library would provide members with access to organization, management, leadership and financial models and materials; up-to-date lists of business resources, potential mentors, and access to successful small business development models being implemented globally.

Training and technical assistance could be provided through a core group of trainers and business professionals.

A linkage/mentor component would be designed in collaboration with businesswomen, local foundation/university representatives, local governments and others to promote private ownership of the component. There is a need to target specific businesses owned or operated by women in selected countries. In the U.S. each of these business sectors has its own trade or professional association, union, or the people in these professions belong to a wide variety of organizations that offer a multitude of services to strengthen women's business ownership.

Each industry group has a trade association not only with a division dedicated to government affairs and a division dedicated to membership services, but they also have a division dedicated to philanthropy. Opportunities for links by businesswomen through mentoring and technical assistance in each of these divisions can significantly contribute to institution building through partnerships. While the well known women's business organizations may be a good place to start, one-on-one mentoring will come from industry specific organizations.

The National Association of Women Business Owners and the National Association of Female Executives are well established and well known organizations with a strong and active membership that facilitate these very activities. Additionally, they have, or are establishing, international chapters. Each of the business sectors also has either a professional organization for women or a group within the organization for women's professional development. In addition the International Women's Forum and the C-200 are organizations for women CEOs who either own businesses or manage multi-million dollar businesses. Both have chapters throughout the U.S.

It is important to find out exactly what each of the organizations is doing internationally in order not to re-create the wheel. Many have some kind of mentoring programs and information exchange opportunities in place. Once the business women in selected countries are identified, professional organizations can go to their membership and recruit mentors and technical assistance.

**DRAFT**

**NEW PARTNERSHIPS INITIATIVE**

***DEMOCRATIC LOCAL GOVERNANCE***

**DRAFT**

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## **DEMOCRATIC LOCAL GOVERNANCE**

### **EXECUTIVE SUMMARY**

This focus report addresses the subject of Democratic Local Governance (DLG) in the context of USAID's New Partnerships Initiative (NPI). DLG combines three concepts that are fundamental to meeting the basic needs of the citizenry: political empowerment; decentralization; and effective governance. While each of these concepts has separately formed the basis of past USAID development strategies, NPI seeks to create policy and programmatic synergies among the three.

- Effective local governance concerns the solution of community problems -- mobilizing human and material resources for the purposes of building public infrastructure, providing a broad range of services, and defining as well as maintaining legal behavior. National governments can, and often do, perform these fundamental tasks, thus impacting directly on local communities. Most nation-states, however, have evolved a mixed political system wherein central and local governments share the state's authority. The universal challenge is whether the present mixture of central and local governance can be revised for the betterment of the citizenry as a whole.

- The purpose of NPI's DLG component is to formulate an integrated strategy for building government and civil society at the local level. In this strategy, local-level political institutions should be viewed as complements to, rather than substitutes for, their counterparts at the national level.

- To be successful, democratic local governance must develop on two discrete levels. First, the national government must create laws and policies that empower local communities to conduct their own public affairs. Second, local actors--government officials, NGO leaders, and entrepreneurs--must acquire the skills, institutions, and material resources that will allow them to practice self-governance. The first level refers to the "enabling environment;" the second level refers to "capacity building."

- USAID strategy will vary according to the particular political conditions of each targeted country. Two general approaches, "top-down" and "bottom-up," illustrate opposite extremes. Actual USAID country experience should fall somewhere in between, with elements of both approaches incorporated in an overall strategy.



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- A top-down approach is appropriate to countries that have experienced a democratic transition at the level of the national government, but that have limited or no experience of democracy at the local level. In such countries, USAID can coordinate with other international donors in initiating a policy dialogue with the national government. The policy dialogue will allow for a discussion of the merits of and avenues for deepening democracy by spreading its practice to localities.

- A bottom-up approach applies to countries that have not yet experienced a democratic transition at the national level. By pursuing such an approach, USAID would attempt to create the demand for democratic local governance. Such an approach would entail the following steps: the identification of reformist government officials and NGOs at the local level; the design and implementation by these reformers of modest pilot projects in democratic local governance; and the building of nationwide political alliances (such as associations of mayors, civil society organizations interested in decentralization) to bring reformist pressure to bear on the national government.

- A review of USAID's current portfolio reveals a large list of programs with relevance to the DLG component of NPI. The inventory highlights a strong emphasis on efforts to promote decentralization and to improve the services delivered by local governments, and a much lesser emphasis on efforts to promote the development of local-level democratic institutions or a more inclusive approach to community decision making. Many of the programs already underway should be reviewed with the specific democracy strategic objectives in mind and, where appropriate, modified accordingly.

- The programmatic elements of the DLG component include: policy dialogue; creating a demand for reform; technical assistance; local political development; and community-level dispute resolution. Programming in these areas should initially focus on certain regions or municipalities within a given country.

- The DLG component of NPI should be implemented in a manner that builds upon the strengths of USAID field missions, including the ability to understand the political dynamics in a country and to work with other donors in pursuit of a policy dialogue. Effective DLG assistance will require the establishment of formal partnership arrangements with nongovernmental actors who can provide the expertise and resources necessary for implementing programs in the field. The challenge for USAID is to devise mechanisms that permit a multitude of nongovernmental actors to be available on short notice to respond to requests for assistance on DLG matters. Moreover, these mechanisms must either encourage organizations to work together or allow USAID personnel to facilitate a cooperative activity among different organizations.

## OVERVIEW

This focus report addresses the Democratic Local Governance (DLG) component of the New Partnerships Initiative (NPI). The report is divided into five sections. The opening section presents general policy guidance for DLG. The section includes a rationale for DLG, emphasizing the equal importance of the national-level enabling environment and local-level capacity building. The first section also offers an approach to the sequencing of different types of DLG assistance depending on the development level of a particular country and also identifies lessons learned from past experience.

The second section provides an inventory of the Agency's current activities that might form the foundation of NPI's DLG component. The third section presents new programming ideas for consideration. The fourth section sketches out a results framework with specific performance indicators. The final section considers management vehicles for implementing DLG activities.

## I. POLICY GUIDANCE

DLG constitutes a fundamental part of USAID's overall democracy portfolio: it empowers citizens to participate directly in the democratic process. However, a country strategy based on DLG is not necessarily appropriate for all missions or all countries. Political liberalization at the national level is often a prerequisite for the establishment of democracy at the local level. Indeed, the provisional sequencing outlined in the Democracy Annex to the *Guidelines for Strategic Plans* remains applicable. The *Guidelines* suggest that USAID missions should focus first on supporting political openings (through NGOs, labor unions, and media) and then on building national-level institutions (elections, deliberative bodies, and judiciaries) before turning to issues of effective governance, including decentralization. Nonetheless, as will be discussed below, some DLG activities may be used to stimulate a political opening at the national level in appropriate circumstances.

### A. DLG RATIONALE

Development problems -- as well as their solutions -- differ greatly from place to place. Several examples will demonstrate this obvious point. A poor hinterland experiencing the rapid exodus of young workers has very different problems than the urban center to where the workers migrate. The difficulties of managing community grazing lands are very different from those involved in administering a regional aquifer on which the community's farms depend. The design, financing and construction of a highway system pose quite distinct challenges as compared to those involving the routine maintenance of city streets or farm-to-market roads.

Both experience and common sense suggest that institutional solutions must befit the nature of a problem. Simply put, those closest to a problem possess several fundamental advantages over those farther away: stronger incentives for a solution, more accurate information, and lower costs in marshalling resources. Thus, all things being equal, local problems can best be solved by empowering the local community to take action. This is the simple but nonetheless powerful rationale that underlies the concept of democratic local governance.

Effective local government concerns the solution of community problems: that is, the mobilizing of human and material resources for the purpose of building public infrastructure, providing services, and defining as well as maintaining legal behavior. National governments can, and often do, perform these fundamental tasks, thus impacting directly on local communities. Most nation-states, however, have evolved a mixed political system wherein central and local governments share the state's authority. The universal challenge in the area of political development is whether the mixture can be revised for the betterment of the citizenry as a whole.

The purpose of NPI is to formulate an integrated strategy for building government and civil society at the local level. In this strategy, local-level political institutions should be viewed as complements to, rather than substitutes for, their counterparts at the national level. Thus NPI recognizes that the success of local institutions will be conditioned by the policies and performance of national institutions. At the same time, democratic local governance can have a profound impact on national politics and development. A viable DLG strategy must aim to strengthen not only local capacity, but also the national enabling environment, and the institutional linkages between the two.

An effective DLG strategy must also acknowledge the growing importance of cities in the developing world. Indeed, by the end of the decade, the world's human settlements will be more urban than rural. A common trait of the global urbanization phenomenon is the severe strain it places on local authorities and their ability to deliver services necessary for economic growth and human well-being. Further, urban areas play a crucial role in rural development by providing markets, specialized economic and social services, transportation and communications centers. Many of the economies of scale in government services can be effectively captured in urban areas.

Cities also offer a fruitful environment for an active civil society. The diversity of economic interests, ethnic groups and professional groups in close proximity is the stuff of which civil society is made. The process of rapid urbanization is a social and political experience of revolutionary proportions. Urban areas offer unique opportunities to strengthen democratic governance, deepen democratic practice and influence democratic conduct at the national level. As it

did in Europe, the urbanization experience will shape political dialogue and political institutions for generations.

## **B. ENABLING ENVIRONMENT AND LOCAL CAPACITY**

Unless a national government is extremely weak, localities do not govern themselves in a political vacuum. Rather, localities operate under the political conditions set by the national government. Therefore, in order for local governance to be truly democratic, it must develop in a conducive environment. In other words, the national government must reflect a democratic orientation and must devolve real political power to localities, relying to the largest extent possible on information from local level decision makers.

Support for decentralization should link responsibility with resources. Changes will be required in national revenue-sharing formulas and the ability of local authorities to raise revenue from taxes and fees. National resource transfers must be transparent and reliable. Intermediary institutions that transfer capital for infrastructure investments can be critical in increasing the volume of available resources and, if handled correctly, can provide the basis for a productive public debate around investment decisions.

Such a devolution entails the sufficient transfer of some of the major governmental processes and functions to the local level. However, unless civil society is permitted to organize without cumbersome and inhibiting regulations, this devolution may simply reinforce authoritarian tendencies. Thus, the political aspect of the enabling environment cannot be ignored, although the means for addressing a central government's reluctance to liberalize will vary by particular country circumstance.

A transfer of political power does not require a total transfer; national governments must retain the ability to unify the nation under a single set of overarching laws. At the same time, enough power must be devolved so as to enable local actors to devise local solutions to local problems within the broad confines of national laws and policies. Establishing a conducive legal and regulatory environment, however, does not ensure that the transfer of authority will occur; recalcitrant bureaucrats often will undercut and delay efforts to devolve power away from the center.

The minimum list of legal powers that local government units should be entitled to exercise include:

- capacity to make and modify binding rules within their specified geographic domain, subject to constitutional limitations and democratic principles;

- capacity to monitor compliance with those rules and to apply them equitably to all persons within the territory;
- capacity to resolve disputes occasioned by fair application of the jurisdiction's rules; and
- capacity to mobilize monetary, labor and in-kind resources to finance the jurisdiction's activities.

The enabling environment also should authorize the election of local government officials and facilitate the participation of local civil society in decision making processes. Delinking national from local elections and proportional representation on municipal councils often serve as vehicles for increasing the responsiveness of local officials to their constituencies.

NPI seeks to provide space and capacity for local initiative within the framework of an effective national government. A weak and ineffective nation state does not offer a conducive enabling environment for democratic local governance. Increased capacity and authority at the local level does not mean that the center has been weakened; rather, it should mean that, in partnership, the society is better governed.

### **C. SEQUENCING AND LEVELS OF DEVELOPMENT**

Improved democratic local governance implies new roles and responsibilities for national and local governments. Establishing the enabling environment for democratic local governance is primarily the responsibility of national government, which must enact legislation and regulation. Nonetheless, underutilized authority frequently exists at the local level and local authorities can accelerate the process of establishing democratic local governance by lobbying the center for increased authority.

USAID strategy will vary according to the particular political conditions of each targeted country. Two general approaches, "top-down" and "bottom-up", illustrate opposite extremes. Actual USAID country experience should fall somewhere in between, with elements of both approaches incorporated in an overall strategy.

A top-down approach is appropriate for countries that have experienced a democratic transition at the level of the national government, but that have limited or no experience of democracy at the local level. In such countries, USAID can coordinate with other international donors in initiating a policy dialogue with the national government. The policy dialogue will allow for a discussion of the merits of and avenues for deepening democracy by spreading its practice to localities.

In transition countries, USAID is working with governments that are open to change, but which face heightened expectations from the people and lower-level governmental entities. USAID's role will be to support joint dialogue with central and local authorities and civil society organizations about the reorganization of power and authority. Capacity building is required at both levels to prepare them for new roles and responsibilities, and legislation is needed to address intergovernmental relations, local charters and elections, revenue sharing and generation. Support for economic development will emphasize revenue generation and improved financial management at the local level and improved capacity to initiate and manage privatization activities.

A bottom-up approach applies to countries that have not yet experienced a democratic transition at the national level. By pursuing such an approach, USAID attempts to create the demand for democratic local governance. Such an approach would entail the following steps: the identification of reformist government officials and NGOs at the local level; the design and implementation by these reformers of modest pilot projects in democratic local governance; and the building of nationwide political alliances (such as associations of mayors, civil society organizations interested in decentralization) to bring reformist pressure to bear on the national government.

This approach is particularly relevant to pre-transition countries with limited democratic experience at the national level. Here, USAID must identify windows of opportunity to increase devolution of authority to the local level. Program support may emphasize service delivery as a capacity building mechanism. Support for municipal associations emphasizes technical information sharing. Economic interventions focusses on improved and more transparent intergovernmental transfers and identification of underutilized revenue collection authority. Improved service delivery and infrastructure capacity will support economic development.

#### **D. LESSONS LEARNED**

USAID experience suggests that, to be successful, democratic local governance must develop on two discrete levels. First, the national government must create laws and policies that empower local communities to conduct their own public affairs. Second, local actors--government officials, NGO leaders, and entrepreneurs--must acquire the skills, institutions, and material resources that will allow them to practice self-governance. The first level refers to the "enabling environment;" the second level refers to "capacity building."

From past experience in promoting democratic local governance, USAID has learned the following lessons concerning these two levels.

## **1. Enabling Environment**

- The political commitment of a national government is the most critical variable in the establishment of an enabling environment for democratic local governance.
- Devolution of political authority to local communities can compound the problem of corruption as local government officials suddenly find themselves possessing greater public resources. Therefore a national government must set and enforce strict standards of performance and accountability with respect to the powers and resources it delegates to local governments.
- Creating the demand for change at the local level is as important as creating the supply of expertise at the national level. Program planners should work to improve the policy setting by collaborating with allies, including advocacy NGOs, citizens' groups, associations of local government officials and others, who share a common goal for democratic local governance.
- Regional governments, which serve as links between national and local governments, must also be reformed in the process of devolving political power.

## **2. Capacity Building**

- Expanding the authority and capacity of local government to collect taxes is critical to enhancing public services and investment.
- Development problems differ widely among local communities. Therefore flexibility and adaptiveness on the local level are critical.
- Devolution of political authority works best when it is conducted in a gradual way - *i.e.* power should be devolved in a particular sphere only when a local government has achieved the capacity to exercise that specific power responsibly.
- In building local capacity, an understanding of the nature of institutions (*i.e.* what rules govern the interaction of individuals) is as important as the introduction of technological innovation.
- Local institutions represent valuable social capital that should serve as the basis of local self-governance.
- Because many development problems extend beyond a single locality, communities must establish cooperative links on many different levels.

- Regional cooperation lessens the North-South stigma and maintains pressure for change in one country based on the successful experiences of other countries.
- Practitioners (rather than consultants alone) should be used as advisers. Peer relationships work well even when U.S. practitioners lack the language and cross-cultural skills of international consultants.

## II. CURRENT PROGRAM DESCRIPTION

A review of USAID's current portfolio reveals a large list of programs with relevance to the DLG component of NPI. The inventory highlights an emphasis on efforts to promote decentralization and local governance services, and a much lesser accent on efforts to promote the development of local level democratic institutions or a more inclusive approach to community decision making. Many of the programs already underway should be reviewed with the four specific democracy strategic objectives in mind (see section V below) and, where appropriate, modified accordingly.

### A. AFRICA

A component of the Mozambique mission's Democratic Initiatives Project is the financing of research concerning traditional authorities for local government structures within a national program of decentralization. The mission recently signed a \$2.26 million cooperative agreement with the African American Institute to assist the Ministry of State Administration in undertaking this research.

USAID's Democracy/Governance Support Project in Ethiopia assists in the establishment of local and regional legislatures. Specifically, the assistance is designed to help the Ministry of Regional and Local Government: develop rules and procedures for the newly-elected regional legislatures and local councils; and conduct workshops that will train 100-200 new regional legislators.

In South Africa, USAID's Shelter and Urban Development Project is demonstrating that a partnership of communities, government, and the private sector can provide housing and urban infrastructure. Within this partnership, the public sector established the necessary enabling environment, and the private sector produces the actual housing and infrastructure. In addition, the mission's Housing and Urban Development Program contributed to the creation of the



Institute for Local Governance and Development. This institute is working to develop the capacity of about 700 newly-unified municipal governments that had formerly been divided along racial lines.

## **B. ASIA/NEAR EAST**

In 1991, the national government of the **Philippines** passed a revolutionary Local Government Code. The code decentralizes authority and resources from the national government to local governments. In addition, the code mandates broad participation by local civil society in key decisionmaking bodies of local government. The Philippine Mission is in the process of initiating pilot projects with ten local governments. This assistance will use participatory methods to establish more efficient service in critical areas of local governance. These areas will include resource mobilization, investment prioritization and promotion, and environmental planning and management. The participatory process will revolve around the Local Government Code's provision for local special bodies (including a health board, school board, environmental board, and an overall development council) that must have at least 25 percent membership from local NGOs.

In 1987, the national government of **Sri Lanka** passed a constitutional amendment that provides significant political power to local governments. However, in the intervening years, progress has been slow in implementing this amendment. In order to facilitate the implementation, the mission will assist both local civil societies and local governments. The mission will strengthen local NGOs as a means to empower people and encourage broader participation in the identification and implementation of development activities. The mission also will strengthen village-level elected councils to work with local NGOs on development issues. Moreover, the mission will establish development funds that will be jointly administered by local civil society representatives and local government officials. These funds will be used to finance development activities that respond to local needs such as land and water use, resource management, water and sewage systems, and roads.

In the wake of **Nepal's** transition to democracy beginning in 1990, the national government passed a Local Government Act that devolves political and fiscal power to the local level. The act set up locally-elected bodies at the district and village levels. These new bodies can retain 90 percent of local property taxes and also receive block grants from the national government. Given these new opportunities for democratic local governance, the mission will assist the development of both local civil society ("user associations" for water, forests, etc.) and local government (village development committees). In addition, the mission will seek to increase the level of cooperation between the user associations and the village development committees.

In Indonesia, USAID's Municipal Finance for Environmental Infrastructure Project aims to: develop a viable and sustainable system of finance for local government; develop a local capacity to deliver technical assistance and training in municipal finance and urban management; improve the quality of urban environmental infrastructure; and increase the participation of the private sector in the provision of urban services. In addition, the Municipal Finance Program provides assistance to the central government in adopting an enabling framework for integrating urban environmental management with a system of improved, decentralized municipal finance and planning. As a result of this program, a ministerial decree was issued in 1994 that redistributes to local governments ten percent of the central government's property tax receipts.

USAID's Urban Environmental Infrastructure Support Project in Thailand assists in developing a sustainable system for financing urban environmental infrastructure. The project activities will be implemented by means of a newly-established Guaranty Corporation that is a cooperative venture between the government and the private sector.

USAID's Financial Institution Reform and Expansion Program in India seeks: to increase the participation of the private sector in the delivery of basic services and land development; to improve the capacity of local governments to plan, operate, and maintain basic services to low-income households; and to promote policies that will encourage the provision of environmental infrastructure through partnerships between municipal governments, state pollution boards, and private enterprises.

In Tunisia, democracy is less advanced and, not surprisingly, the enabling environment for democratic local governance is much weaker. In this more constrained political environment, the RHUDO is developing a National Municipal Training Center that will work both on national policy reform and on training for municipal officials. In addition, the RHUDO is fostering cooperation between community groups and municipal officials. At the beginning, these new partnerships are focused on identifying non-partisan, local development problems and then on devising solutions to these problems.

### **C. EUROPE/NEWLY INDEPENDENT STATES**

USAID's Public Administration Assistance Program in Central and Eastern Europe has five areas of emphasis: (1) fostering decentralization; (2) increasing transparency, accountability and openness in government; (3) improving effectiveness and efficiency in government; (4) clarifying roles and responsibilities between executive and legislative bodies; and (5) supporting the transition of government to a regulator of the economy. Programs are implemented at the central, regional, or local level, but the primary filter for determining the type of program to undertake

is whether or not a country has decentralized or has the political will to decentralize. The program has no interest in strengthening a highly centralized government. Within the overall context of democracy programs, assistance for public administration is provided as countries move in the direction of consolidating a democratic political system.

Specific country programs underway include the following:

In **Bulgaria** the program has been implemented by the University of South Carolina since 1991 and consists of short-term advisors visiting local governments in Bulgaria for 3-6 week periods. The advisers assist local officials in such areas as: citizen and media relations; budgeting and financial management; mayor/council relations; general management; economic development; planning and zoning; regulatory issues; and management information systems. Also under the South Carolina program, USAID has placed a long-term advisor in Bulgaria to foster the development of municipal associations. Additional activities to assist local governments, particularly in the area of training, are under design.

In the **Czech Republic** the program focuses on three areas: municipal economic development; municipal procurement; and municipal citizen relations. The first two program areas are being implemented by KPMG-Peat Marwick, and the third program area is being implemented by the National Academy of Public Administration. Each program consists of a combination of long-term advisors in pilot cities, a general training course offered across the country, and the development of self-study materials to be distributed widely. The Program in the Czech Republic is expected to be completed by January 1997.

In **Estonia** the program focuses assistance in two areas: budgeting and financial administration, including capital improvement forecasting and financing; and general operations management, including procurement and personnel administration. Development Alternatives is the contractor implementing this program, which includes two long-term advisors working in four pilot cities, and the development and delivery of a general training course and self-study materials. The Estonia Program is expected to be completed by September 1996.

In **Poland** the program consists of a multi-pronged approach including assistance at all levels of government. The centerpiece of the Poland Program is a three-year project being implemented by Development Alternatives which includes the following components: reforming and restructuring voivodships, particularly in the area of economic and regional development; assisting the government on issues related to decentralization, intergovernmental relations and finance; and building in-service training capacity targeted towards the central government, focusing efforts in the above two areas. The U.S. Office of Personnel Management is undertaking a management training effort with Poland's National School of Public Administration

to complement this assistance. In addition, USAID has placed a long-term advisor within the central government to provide assistance in implementing a new public procurement law.

In addition, Public Administration Country Programs are currently being bid or are under design in the following countries:

In **Bosnia** the program will be directed at strengthening the Federation of Bosnia-Herzegovina. Up to three long-term advisors will work with cantons and municipalities to address a wide range of issues from intergovernmental relations to basic service delivery and financial management. At the Federation level, a long-term advisor will be placed in the Ministry of Finance to begin working on issues of intergovernmental finance and relations as well as general management and organization. A contractor has not yet been selected to implement this program.

In **Hungary** the program will target small to medium size cities. Direct technical assistance in basic public management areas as well as in building citizen involvement in local government will be provided through three long-term advisors. Another long-term advisor will develop and deliver training courses to a larger number of local governments throughout Hungary, and will work with local institutions to build capacity of those institutions to provide training. Assistance will also be provided to strengthen the Federation of Local Governments, and occasional advice will be provided to the Central Government Ministries and Offices working on local government and intergovernmental issues. A contractor has not yet been selected to implement this program.

Complementing these country-specific programs are regional activities. Through Rutgers University and the Foundation in Support of Local Democracy (FSLD), USAID is supporting a program to develop municipal training modules in procurement, management, and media relations. USAID is also supporting Milwaukee County's program to provide internships for local government officials from Poland in Milwaukee County government. Additional technical assistance activities are under design. This year, USAID has begun supporting an initiative called Dialog through the German Marshall Fund and the FSLD Training Center in Bialystok. Dialog is a community development project that facilitates citizen activeness on issues of importance or concern to the local community.

In the **Newly-Independent States**, an important aspect of the transition from a centralized political system to a pluralistic, democratic system of governance is the devolution of power to the local level, where people have a greater prospect of participating in government. NIS countries are at a very early stage in this transition: local authorities are still unpracticed in democratic processes, have not been fully empowered to govern, and lack many of the requirements of an effective democratic structure. Therefore USAID's Municipal Finance and Management

Project is helping to redress these deficiencies by strengthening those basic institutions of local government that promote openness, participation, and accountability.

The project has three main objectives: to introduce municipalities in the NIS to the best available techniques and systems for municipal management, budgeting, and finance in the context of democratic local governance and a free market economy; to introduce automated management information systems to carry out open, transparent, and accountable local municipal management and governance; and to establish and conduct programs locally and in the United States to train project participants in the techniques and skills needed to make management systems work. The project is helping counterpart cities in Russia, Ukraine, Kazakhstan and Kyrgyzstan.

#### **D. LATIN AMERICA/CARIBBEAN**

In El Salvador, USAID's Municipalities in Action (MEA) project was the forerunner to the current Municipal Development project authorized in 1993. The MEA was successful in investing almost 1 billion colones (approximately \$125 million) in municipalities for roads, schools and potable water. This provided mayors with experience in handling funds and increased confidence in their ability to respond to long-standing infrastructure problems. However, the MEA distorted the need for municipalities to create their own sources of revenue. Town meetings were not the forum envisioned in the Municipal Code, but became more of a "wish list" session. The Municipal Development Project now includes components for policy reform, municipal strengthening, citizen participation, and support to the municipal association.

In Honduras during the 1980s, housing guaranty loans were initiated to improve marginal communities. Implementing infrastructure projects within the existing municipal code was difficult and it became clear changes in policy were needed to improve local governance. Technical assistance was gradually redirected to influence policy decisions and in 1990 a new municipal law was approved which gave local governments control over their own resources, authority to manage taxes and service fees, as well as budgets and land use decisions for urban development. Simultaneously, USAID approved a seven-year municipal development project to improve the effectiveness of municipal governments in responding to citizen needs for land, public services and infrastructure.

In Nicaragua, USAID's recently-approved municipal development project focuses more on institution building than policy dialogue. It is designed to strengthen municipalities, providing technical assistance and a capital fund. As the project evolves, twelve to fifteen municipalities will be selected to participate.

Emphasis will be placed on activities that are replicable. Decentralization will be promoted through the national municipal association.

In Haiti, USAID's local governance program, developed by the Office of Transition Initiative, provides a mechanism for an immediate response to the post-crisis situation in Haiti. Its basic premise--that development assistance usually lags behind actual need--was to ensure that money and personnel were deployed to areas outside of Port au Prince immediately following the permissive entry of multinational forces. The program established 16 sites around the country as platforms for community action. It created a base from which political development activities could be combined with immediate recovery needs: jobs creation, infrastructure repair, providing local security, and microprojects. If a project engaged a wide range of community actors, and benefitted the community, then it was considered for funding. To date, the local governance program has developed over 264 projects in about a third of all communes in Haiti (over 40 of 134). In many areas the project has worked with the Special Forces teams sent to rural Haiti to provide security, but also to restart the communities where three years of repression had taken a serious toll on infrastructure and daily life.

In 1992, USAID established its Local Government Outreach Strategy (LOGROS) Project for Central America. The purpose of this regional project is to contribute to the transfer of authority and control over financial and human resources from central to local governments while helping to improve the response of local governments to citizen demands for improved services and political enfranchisement. The LOGROS project consists of three components: policy dialogue and consensus mobilization; technical or problem solving; and financial through the Municipal Infrastructure Finance Loan (which is called PROMUNI). The project supports municipal associations and NGOs that complement municipalities in the decentralization process.

PROMUNI is the capital component of the LOGROS project and serves to demonstrate what municipalities can do with increased financial resources at the local level. A U.S. government guaranty to the Central American Bank for Economic Integration (CABEI) is used to on-lend funds to intermediary financial institutions (IFIs) for municipal projects which improve water, solid waste, roads, etc. Municipal development funds or credit programs, such as PROMUNI, can significantly improve the success of municipal development projects by freeing them from limited capital constraints, allowing cities to learn by doing (i.e. managing resources and systems at the local level).

Another regional project is called Women and Local Government in Latin America. A project of the International Union of Local Authorities, it is sponsored by USAID's Regional Housing and Urban Development Office in South America and the Office of Women in Development. This project aims to increase the participa-

tion of women in local government by increasing the institutional capacity of local NGOs to undertake advocacy activities.

### **III. NEW PROGRAMMING IDEAS**

As evidenced from the above sample of current USAID programs, DLG potentially covers a broad swath of activities. Nonetheless, for purposes of USAID programming under NPI, the DLG category should not be viewed as all-encompassing. Instead, based on the development rationale for the initiative and the experience of previous programs outlined above, the following program areas should receive priority consideration.

#### **A. POLICY DIALOGUE**

USAID, working together with other donors, can contribute to the establishment of a conducive enabling environment for effective democratic local governance through policy dialogue with the national government. The nature of the policy dialogue will depend on many factors, not the least of which is the national government's reason for engaging in the dialogue. The working relationships will also depend on whether the push or decision to shift from centralized, concentrated authority is coming from the President and his/her "aparap," or is being forced on the nation's titular leadership by elements of the power structure outside of the formal government structure, which the leadership feels it must bow to in this instance.

The policy dialogue process often benefits immeasurably by exposing key decisionmakers to the experience of the U.S., or culturally more relevant neighbor states where the DLG process is more advanced. Such study tours often increases the comfort level of government officials, who are often being asked to make radical changes in how their society is governed, and also provides an opportunity to review specific options and to discuss the process with someone who has recently experienced a similar exercise.

Initially, the policy level dialogue will most probably involve only the Ambassador and the Mission Director with the host country government. Once initial agreement to move forward is reached, the baton passes to other players for execution. This may include technical experts retained by USAID, who benefit from being brought into the process early on.

The policy dialogue approach requires an understanding of the "road map" of power within the country, including identification of the specific groups comprising the coalition proposing reforms in this area. The USAID assistance package, to the extent possible, should strengthen their position. The explicit, although not

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necessarily direct, presence of USAID in the financing and operational stages of enabling activity sends a clear signal to the national government and civil society regarding U.S. government policy direction. In many countries, such an endorsement carries considerable weight for change.

If the decision has been made to proceed with a "top-down" approach, USAID's focus should not move from the policy dialogue until there is agreement on what will be done. Little or no "technical" work should be undertaken at lower levels of the government until political decisions have been taken. This is even more important tactically if the titular national leadership is responding to pressure, whether internal or external, in moving to empower local communities.

## **B. CREATING DEMAND FOR REFORM**

In most circumstances, reliance should not be placed solely on policy dialogue. Perhaps more important, donors should contribute to creating the demand within a country for changes in laws and policies. This often is a labor intensive activity, requiring knowledge of the key political actors, an understanding of the legal framework and an ability to move quickly to take advantage of opportunities.

Partnerships should be encouraged between central and local government authorities, but this often will require the existence of a nationally organized local government sector. Support for associations of municipalities, mayors or local advocacy groups (horizontal levels of cooperation) enables them to participate in the terms and sequencing of the decentralization process. At the same time, caution must be exercised in relying on national level "institutes," which oversee and often provide services to local level governments. In many cases, they simply do not enjoy the confidence of locally elected officials and, by confining interaction on decentralization initiatives to such institutes, donors encourage a top-down approach and send the wrong message to all concerned parties.

## **C. TECHNICAL ASSISTANCE**

Another level of programming activities relates to the specific requirements for creating the enabling environment. In this regard, technical assistance and, in some cases, material support for the development of constitutions and legislation at the national level and corresponding charters at the local level are critical. Among the key issues that must be addressed in these documents are taxing authority, responsibility for resource allocations and processes for selecting leaders.

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#### **D. LOCAL POLITICAL DEVELOPMENT**

A holistic approach to the attainment of democratic governance requires supporting political development at the local level. If local governments are to embrace, display and embody the virtues of transparency, accountability, participation and effective use of resources, such performance must be assisted, required and monitored by an informed citizenry. By their nature, these are political acts. The political process is the empowering component of this system; civic society must successfully demand democratic governance.

Education and information are critical in this regard. This can be accomplished through locally operated radio stations or newspapers that address local issues, legal aid clinics, legal rights promoters and support for the dissemination of information generated at the national level (*e.g.*, budget, legislative decisions, treaties affecting basic rights, etc.) that will allow for more involved decision-making.

Also important is the development of political skills for use in elections and in decisionmaking fora. The focus should be on institutional decisionmakers (local administrators and elected officials), traditional decisionmakers (chiefs, religious leaders, etc.) and on groups that traditionally have not been represented in the decisionmaking process. In this regard, establishment of a forum for women's political leadership and activism will ensure more meaningful participation and increase the capacity of local government to reflect the concerns of the populace that it serves.

In some contexts, support for the establishment of new rules, procedures and structures might be appropriate. These may include:

- local citizens advisory councils or public fora where government officials meet ordinary citizens;
- watchdog organizations for monitoring abuse by government officials, including the police;
- open budget hearings that specifically invite public input;
- instituting code of ethics and public disclosure laws for elected officials and administrative professionals; and
- conducting public opinion surveys and evaluations on needs, wants and satisfaction.

## E. DISPUTE RESOLUTION

Another area of focus for DLG activities involves local dispute resolution. The emphasis may vary in different settings on: 1) the formal judicial system; 2) administrative mechanisms for resolving disputes; 3) support for NGOs that disseminate and pressure for the enforcement of legal rights; and 4) alternative dispute resolution. Several issues and bottlenecks relating to assistance efforts in the judicial sector directed at the local level should be factored into planning exercises. For example, many developing societies have a system of valid traditional mediation practices, which work well and are quite equitable, thus limiting the need for change and modernization. In these circumstances, conflicts may emerge between modern laws and traditional dispute resolution mechanisms.

## F. PROGRAMMATIC LINKAGES WITH OTHER ISSUE AREAS

Because all three components of NPI operate at the local level, USAID programming in this area should concentrate on certain regions or municipalities in each pilot country. In this way, the synergies flowing from each NPI initiative will create a whole better than the sum of its parts. Specific linkages envisioned between the DLG component and the other two components are as follows:

Small Business - Local governments create the enabling environment for small business to develop and grow, or alternatively, inhibit the development of small business in their community. USAID institution-building assistance to local governments under NPI will include assistance in economic planning and implementation so as to foster the development of small business. At the planning stage, local business leaders and groups, as well as citizens, should be included in the development of an economic plan for a community, either through regular consultations or through an advisory board or commission. Technical assistance and training to local governments in setting up such a board or commission may be provided under the NPI/DLG.

Local governments may also unintentionally create an unfriendly regulatory environment for the development of small businesses. For example, local zoning laws may require minimum size restrictions for business sites that are out of reach for smaller firms, forcing small businesses to operate outside of these rules, thereby denying them access to necessary urban services such as water, power and sewer. The ability to obtain licenses and permits may also inhibit the ability of small businesses to flourish in a community. Technical assistance and training in creating a more friendly regulatory environment may be provided to local governments under the NPI/DLG.

One area that might be particularly useful in terms of creating a more proactive environment for small business development in local communities is the

introduction of open and transparent public procurement systems. In local communities, most procurements are of a small value that can be met by a small businesses. Much in the way that public procurement in the U.S. fosters the development of small business, opening up procurement processes in local governments in other parts of the world may also play an important role in the creation and building of small business.

NGOs - NGOs play an important role in facilitating communication between local governments and their citizens, and in educating citizens as to their rights and responsibilities. Technical assistance and training may expose local governments to various ways to foster citizen involvement, including through local NGOs.

NGOs, such as associations of mayors or associations of cities, can also play an advocacy role in pressuring the central government for policy reforms and decentralization. USAID assistance under the DLG component of NPI may foster the development of such NGOs. Alternatively, NGOs can be a mechanism for the delivery of services locally. For example, NGOs can often influence local government programs by example through the development of innovative new approaches and models that are then adopted by government.

#### **IV. PERFORMANCE MEASUREMENT AND EVALUATION**

The DLG component falls within the democracy sector of USAID's strategic framework. Successful DLG efforts should contribute to improvements in all four democracy sector objectives: strengthened respect for rule of law and human rights; more credible and genuine elections; strengthened civil society; and more accountable governance. Moreover, increasing local government participation in basic government functions is identified as a specific program strategy under the "more accountable governance" objective.

The following results framework is for use at the operating unit level. Specific indicators are suggested for several of the program activities that form of the DLG component of the NPI.

##### **Strategic Objective**

- Increase democratic local governance in Country X.

##### **Indicators:**

- a. citizens' accessibility to the decision-making and budgeting process at the local level.
- b. percentage of national-level revenues allocated to local governments.

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- b. percentage of national-level revenues allocated to local governments.
- c. percentage of locally-collected revenues in the budgets of local governments.

### **Program Objectives**

- PO 1: Create an enabling environment for DLG at the national level of Country X.

#### **Indicators:**

- a. Revision of the national constitution or passage of legislation that devolves political and fiscal power to localities.
- b. Number of taxation instruments granted to local governments.
- c. Political and fiscal independence granted to local governments as evidenced by election of local leaders and ability of local leaders to allocate resources.
- d. Degree of national-level executive and judicial enforcement of constitutional and legislative changes.

- PO 2: Build capacity for DLG in Country X.

#### **Indicators:**

- a. Number of NGO, business, or professional coalitions that advocate for DLG reform at the national level.
- b. Number and size of private-sector and civil-society organizations participating in the local political process.
- c. Number and functional range of services provided by local governments.
- d. Number of public-private consortia for service delivery at the local level.
- e. Number of local-level consultative mechanisms that institutionalize citizen participation in the decision-making process.
- f. Number of women in positions of leadership as elected local officials, in advocacy organizations and as owners of small businesses.

In addition to the measurement of performance at the country and program levels, USAID is initiating a major cross-country evaluation of democratic local governance. This exercise, like previous CDIE evaluations of rule of law and civil society programs, will distill and analyze the pertinent experience of both USAID and other donors during the last several years. Unlike previous decentralization evaluations, which emphasized public administration of one sort or another, the

proposed evaluation will focus on the democratic aspects and implications of decentralization.

As currently envisaged, the study will begin in the fall of 1995, with several field studies beginning in early 1996. The initial field studies will form the basis of an initial multi-donor review in the spring of 1996, as part of a seminar organized by USAID for the DAC working group on Participatory Development and Good Governance. A final synthesis report will be ready in early 1997.

## **V. NEW MANAGEMENT VEHICLES**

The DLG component of NPI should be initiated in a manner that plays upon the strengths of USAID field missions--including the ability to understand the political dynamics in a country and to work with other donors in pursuit of a policy dialogue--and nongovernmental actors in the United States, who have worked on political development, decentralization and empowerment issues for quite some time. At the same time, the DLG component requires the development of technical expertise within USAID to assist with the assessment process, which is required to initiate an effective policy dialogue and to identify appropriate programs. Effective programming also will require the establishment of formal partnership arrangements with particular nongovernmental actors, who can provide the requisite expertise and resources necessary for implementing programs in the field.

Many U.S. nongovernmental actors have expertise in specific areas germane to the DLG component. These include: constitutional arrangements; local government management; political institution building; encouraging political participation of women; working with advocacy NGOs to promote policy reform; encouraging consensus building among disparate political actors; and educating the public about government institutions, policymaking and participation. Some nongovernmental actors, however, assume that they can respond to all requests for assistance posed by a particular country setting. USAID bureaucratic procedures, which seek to limit the number of contracts an operational unit is responsible for, often encourage such posturing.

The challenge for USAID is to devise mechanisms that permit a multitude of nongovernmental actors to be available on short notice to respond to requests for assistance on DLG matters. These mechanisms must either encourage groups to work together or allow USAID personnel to facilitate a cooperative activity among different groups in support of a particular objective relating to democratic local governance.

In addition, USAID should utilize the following criteria in selecting among partner organizations:

- democratic orientation as reflected in organizational charter, speeches by leaders and institutional formation;
- strong preference for entities that are inclusive and participatory, and promote participation of minorities and women in formulation of policy and implementation of programs;
- organizational commitment to work on policy issues through advocacy or monitoring;
- involvement in activities with urban center focus; and
- capacity to implement programs that have a sustainable component.

Some reorganization within USAID missions also may prove helpful. USAID/Niger, for example, has recently established an Office of Democracy, Governance and Local Participation, which is responsible for issues relating to democracy, human rights, governance, decentralization, local participation and partnership relations with PVO/NGOs. The establishment of a consultative group to help the mission select a democratic local governance approach and choose from among different program options is another possibility.

**ANNEX 1****NPI IMPLEMENTATION:  
Illustrative Examples Based on Existing Mission Programs**

The following examples are purely hypothetical. They are intended to be of assistance to missions already juggling multiple competing demands and to move the discussion of NPI from the abstract realm to the concrete realities of the field. The goal is to provide a vision of the ways in which NPI might be of use to missions in a variety of different country settings. Rather than "inventing" a hypothetical country and risk establishing self-fulfilling parameters, it was decided to apply the NPI framework to a series of real world contexts. In each case, the selection was made through informal consultation with bureau and/or mission staff, a number of whom have met with the NPI team.

Of course, actual programmatic decisions about NPI implementation in any particular country will be the result of a field-based exercise, involving the NPI team, the bureaus, the missions and their development partners. These illustrations are intended to ground the NPI theoretical framework in the real-life circumstances at USAID missions.

**Illustrative example #1 - MALI****I. Country Context and NPI Rationale**

In contrast to the depressing and discouraging news coming out of Africa over the past several years, the overall social, economic and political situation in Mali is positively inspiring. A popular revolution overthrew the 23-year military dominated regime of Moussa Traore in March, 1991. Since that event, the march toward sustainable democratic governance and economic growth has only been forward. The liberalized political climate has fueled an explosion of private initiatives in the print and radio media and the government is actively pursuing a decentralization program designed to breakdown the structures of post-colonial bureaucratic centralism. Additionally, the 50 percent devaluation of the CFA franc has opened enormous opportunity for the export of Mali's primary products.

But the future is not completely rosy. Mali is starting on this upward path from the very bottom. Social and economic indices such as per capita GDP, literacy, infant mortality and life expectancy are among the very worst in the world and with a population growth rate of approximately three percent per year, the positive trends will need to remain strong for a long time before they can overcome the existing obstacles.

Donors, international NGOs, the Malian Government, and the Malian people already recognize that the most promising development strategy for the country is one that emphasizes the building of partnerships. Public-private partnerships have led to some dramatic improvements in transportation infrastructure and Mali's vibrant and flourishing NGO community has developed rapidly in recent years through partnership programs with international organizations. The existing commitment to local empowerment and capacity building, evidenced by the importance placed on NGOs and the concrete plan for decentralization, all combine to make Mali an obvious candidate for a USAID program that combines the themes of the New Partnerships Initiative.

### **Current USAID Country Strategy and Program**

USAID/Mali is in the process of developing a new, eight-year strategic plan. The new strategy will be reviewed in Washington in mid-September. While the details of the strategy and its final approval remain to be completed, the broad outlines of the strategy that will be presented are known and they offer some exciting possibilities for collaboration with the New Partnerships Initiative.

**SO 1** In a clear departure from more traditional USAID strategic objectives, USAID/Mali intends to focus its primary SO on a particular age-set -- youth between the ages of 0 and 24. The mission anticipates multi-sectoral interventions in health, education, environmental management and job training to prepare youth for their adult lives. The SO is stated, "Malian youth acquire skills and behaviors to meet their needs and those of society." The approach provides for gains in each sector to reinforce gains in other sectors, giving the overall program a synergy of impact. The programmatic implementation of this SO relies upon both governmental and nongovernmental organizations to build and operate local institutions to serve the needs of the targeted population segment.

**SO 2** "Increased value contribution of specific economic subsectors to the national income." This SO seeks to balance the need for economic growth within a sustainable environment. It combines political and economic policy reform initiatives with targeted, site-specific interventions promoting market and technology access that empowers communities to manage local resources.

**SO 3** "Community organizations play the leading role in local development." Under this SO the mission plans to focus on civil organizations in both rural and urban areas. The objective seeks to build the capacity of civil society organizations to demand good governance while, simultaneously, undertaking policy reform actions to improve the legal, regulatory, and economic environment for the sustainable development of local organizations.



A cross-cutting **Special Objective**, "Improved access to and better use of information", responds to the needs of all three SOs and the need to help Mali catch up--and keep up--with the information technology revolution. The mission anticipates experimental, small-scale interventions in collaboration with the private sector to support the information and communication needs of its other strategic objectives.

## **II. Illustrative NPI Country Program**

If USAID/Mali's new strategic plan is approved as designed, the mission will already be what could be called a NPI Leading Edge Mission. Local capacity building and empowerment is what the proposed strategy is all about, although the current program envisions improving the enabling environment for small businesses rather than direct involvement in this sector. In addition, as a reengineering country experimental lab, USAID/Mali has initiated the creation of a "Maximum Center." The center would serve as the program nexus, linking interventions in the different SOs together and providing ongoing monitoring and evaluation of results to stimulate innovation and improvement. The Maximum Center would be the obvious location for a concentrated emphasis on the implementation of a New Partnerships Initiative.

### **NPI opportunities with additional funds**

A small amount of additional funding could go a long way in helping the Maximum Center to operationalize its many ideas and plans. Some possibilities include:

- funds for innovative grants submitted by community institutions for activities that will serve to build local capacity to meet local development constraints and needs;
- funds for targeted research activities to generate lessons learned and disseminate best practices on, for example, 1) building partnerships (among local institutions and between local and international organizations), 2) on the relationship between customary local governance and decentralization actions, and 3) on the relationships and overlap between service delivery NGOs and advocacy organizations;
- funds for a new program intended to build small business capacity by helping second and third-time recipients of microenterprise loans to acquire the skills (tax payment information, employee management) they will need to make the transition from the informal to the formal economy.

### **NPI Opportunities not requiring additional funds**

Even without additional funds, USAID/Mali will, through its Maximum Center, be able to identify and build synergy and partnerships among the institutions involved in its programs. All of the activities listed above, with the possible exception of the creation of an endowment for small grants, will be possible to effect through normal program implementation, albeit somewhat more slowly than if additional funds were available. Research to discover what is working and what is not in terms of building local capacity and empowering local communities will be part of the mission program, but specific studies may have to be staggered over a longer time period. Similarly, without funds for a new program, assistance for the transitions of enterprises from the informal to the formal domain will have to be gradually incorporated into the mission's microenterprise lending programs as they are renewed and redesigned.

### **Illustrative Example #2 - ROMANIA**

#### **I. Country Context and NPI Rationale**

Like most of the countries of Eastern Europe and the former Soviet Union, Romania is grappling with the challenges attending the transition from central planning and communist rule to a market-based economy and democratic polity. Democratic institutions and practices have begun to take hold, but they remain fragile. The governing Party of Social Democracy of Romania is in coalition with nationalist parties which have extremist elements; the pro-reform opposition is seriously divided. Both the parliament and judiciary are institutionally weak and the independent media, while relatively unfettered, is not yet sustainable (e.g. newspapers are still dependent on the government for newsprint supplies).

The NGO sector continues to grow yet many organizations, institutes etc. appear to lack staying power. Meanwhile the ethnic Hungarian minority presses for greater autonomy and discrimination and even violence against Roma (Gypsies) is an ongoing concern. A tradition of centralized control combined with the adoption of a prefecture system akin to the French model has retarded the diffusion of political power to the local level.

Romania has registered significant headway in macroeconomic stabilization, having reduced inflation dramatically and cut the budget deficit. After four years of decline, GDP showed positive growth in 1994. The Government has taken steps to liberalize prices, trade and the exchange rate system and overseen impressive privatization at the level of retail trade and services. However, privatization of medium and large state-owned enterprises has lagged badly, in part due to fears of rising unemployment that has already topped double digits. Living standards have fallen, exacerbated by a faltering social safety net.

From the standpoint of the broader application of NPI, Romania offers a compelling case because it is representative of the common tasks confronting former communist states while also holding relevance for other categories of developing nations faced with centralized governing structures, embryonic democratic political culture and institutions, structural impediments to introduction of market mechanisms for determining resource allocation, ethnic divisions, environmental damage, and deteriorating infrastructure and social conditions.

### **Current USAID Country Strategy and Program**

The animating logic and central goals of NPI dovetail well with USAID's present strategy in Romania. U.S. assistance under the SEED program has focused on increasing the role of the private sector, including the creation of small businesses, developing and strengthening the NGO sector, and enhancing the administrative capacity and commitment to democratic principles of regional and local government. At the same time, the mission is working at the national level to create an environment conducive to political and economic pluralism and to encourage devolution of decisionmaking authority to local institutions.

Several features of the Romania program stand out as embodying the spirit of NPI. In the area of promoting small business, USAID has funded a national center for training business counselors and aspiring entrepreneurs while also providing technical assistance to small and medium-sized private enterprises through the International Executive Service Corps (IESC), Volunteers in Overseas Cooperative Assistance (VOCA), Citizen Democracy Corps, and the Peace Corps.

The countries of Eastern Europe are particularly well positioned to create a vibrant small business sector which in turn can help to strengthen civil society as well as the national economy. In Poland, for example, emerging small enterprises have been one of the main engines of economic reconstruction and a growing political force by virtue of success in mobilizing group interests.

As far as strengthening the NGO sector, USAID--along with other donors such as the Soros Foundation--has been instrumental in enhancing the capabilities and influence of various nongovernmental actors ranging from environmental groups and social service organizations to independent trade unions. USAID has provided funds for training of NGO/PVO staff both in-country and in the U.S., facilitated collaboration among Romanian organizations, and has been a major force in the development of business and professional associations (e.g. the Young Lawyers Association; local Chambers of Commerce) which are becoming effective vehicles for aggregating and articulating members' policy interests. Other projects which contribute indirectly to empowering NGOs include training for parliamentarians on constituent relations (legislators have opened up more than 300 district offices) and a successful partnership between the National Democratic Institute and

the Romanian Pro-Democracy Association designed to increase parliamentary transparency.

U.S. strategy in Romania strongly supports the decentralization of political power to local communities as a means to broaden participation in the decision-making process. To this end, USAID has funded the International City/County Management Association (ICMA) to improve municipal administration. The Agency has also played a central role in establishing the National Federation of Mayors which has begun to lobby the national government on a range of policy issues, including the granting of some taxing authority to municipalities. A planned new public administration project will build directly on ICMA's local government activities.

## **II. Illustrative NPI Country Program**

As is evident from the discussion above, USG strategy in Romania already reflects some of NPI's chief goals and priorities and therefore would not necessitate an overhaul of existing strategic or program objectives in the event the mission decided to embrace NPI explicitly. Still, a good deal would have to be done to incorporate the three components of NPI into the country strategy in a more systematic and synergistic way. It is probable that budget allocations would also change to reflect an even greater emphasis on local level actors and processes.

Should the mission receive supplementary seed funds as a Leading Edge Mission, there are a number of candidate activities designed to build on existing efforts to expand local capacities which merit consideration. First and foremost this would require maintaining the current strategy's "beyond Bucharest" focus, looking for opportunities to work with receptive municipalities to augment their administrative capacity and attempting to promote greater cooperation between local authorities and constituents, including civic and other types of organizations.

This might take the form of a modest social investment fund which would make small grants to local organizations for community projects. Such an undertaking would help local NGOs to address common weaknesses such as inadequate management, financial and strategic planning skills. To the extent the project also provided short-term employment opportunities in economically depressed communities there is also the possibility of leveraging more funds from other donors. As far as other USG funds for local capacity building, the mission anticipates there will be at least one small loan window and/or community lending facility established by the Romanian-American Enterprise Fund.

In Romania, USAID-funded activities to work directly with municipalities to enhance both administrative capacity and transparency must be accompanied by continued efforts to promote decentralization of political power. Lobbying by local

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government officials aimed at both the executive and legislative branches is one source of pressure. USAID is contributing to such efforts through its support for the National Federation of Mayors. Despite the circumscribed autonomy of local officials, there are selected opportunities to upgrade Romanian management and service delivery at the community level. ICMA has already met with success in helping a few municipalities to reduce water and electricity consumption and in assisting a few of the country's larger cities to secure direct loan financing from the EBRD. Attention should be given to follow-on efforts to make local governing institutions more accessible to citizens and more responsive to their needs while adhering to internationally-recognized democratic standards.

Another candidate activity is to expand existing programs which draw on the expertise of U.S. organizations (e.g. VOCA, CDC, Peace Corps) that provide technical assistance to new small businesses using resident volunteers. These society-to-society linkages have already proven extremely effective in Romania. Alternatively, the extra funds could be used for small loans or grants to would-be entrepreneurs, perhaps targeted to women. Securing start-up capital can be a daunting task, especially outside Bucharest, given the underdeveloped state of credit markets.

The attempt to stimulate small business has both an economic and political rationale. These firms are the key to job creation and economic growth and also constitute a potential force in national economic and political policymaking by aggregating the interests of an emerging middle class. Associations of private business owners are an effective counterweight to still-powerful proponents of central control.

Privatization in the housing sector also encourages citizen empowerment through individual ownership and formation of condominiums. Again, additional monies could be used to expand ongoing programs aimed at privatizing the existing housing stock and establishing a real estate market.

Supplementary NPI money might also be used to foster stronger ties among diverse local NGO/PVOs, for example, through regional conferences or technology links, and to forge partnerships between these organizations and U.S. counterparts. Too often U.S. implementors concentrate on capital-based indigenous organizations which tend to have little if any presence at the grassroots level.

A number of the activities described above could be implemented even in the absence of additional NPI-related funds or a decision not to reallocate existing resources to emphasize NPI priorities beyond present plans. For example, USAID could promote the formation of associations of private enterprise owners in the manufacturing and service sectors to complement ones it helped bring to fruition in agribusiness. Similarly, the mission could widen its efforts to facilitate town

meetings bringing together community representatives, local authorities, NGOs, and relevant national government officials, to discuss critical issues confronting municipalities in a search for common ground.

Finally, another way to advance the goals of NPI without expending extra resources is to collaborate more closely with other bilateral and multilateral donors who share USAID's perspective on strengthening local capacity. Although European donors tend to view USG assistance strategy in the ENI region as bordering on anti-statist, they do recognize the importance of small business development, grassroots citizen empowerment, and local government administrative competence. In view of impending budget cuts in virtually all ENI country programs, mission staffs have added incentive to enlist other donors' support for NPI objectives.

### **Illustrative example #3 - BRAZIL**

#### **I. Country Context and NPI Rationale**

Brazil is a continent-sized country with a population equal to all of Spanish-speaking South America. It is a country of great contrasts, with a world-class industrial economy in the South and India-like poverty in the Northeast and Amazon regions. Brazil boasts the world's largest Gini-coefficient (i.e. the greatest divergence of income levels between rich and poor). Less than ten years ago, the country emerged from decades of military rule and is still struggling to establish and consolidate effective democratic political processes.

Because of a severe economic downturn during the 1980s and early 1990s, Brazil's federal government has been effectively insolvent and unable to finance social programs as it had in the past. Citizens have gradually learned not to depend upon the federal patronage of the past and have begun to organize to address education, health, environment and other problems at the level of their communities and states. The federal government has delegated to the state and municipal governments greater program and financial responsibility. NGOs, community schools, and other local initiatives have proliferated while pressure for political reform at the state and local (municipio) level continues to grow. Unfortunately, many of these initiatives have been short-lived due to lack of funding, weak organizational and management capacity, and the tendency toward political motivation or dependence on a single dominant founding personality.

#### **Current USAID Country Strategy and Program**

USAID phased out a massive assistance program in the early 1970s as Brazil attained annual double-digit rates of economic growth. A small USAID office was reopened in 1986 when USAID/W realized that it could not address the global

problem of population growth without including a program in Brazil. Global problems remain the *raison d'être* for USAID's presence in Brazil. The program, now almost \$20 million per year, also addresses global warming via environmental activities in the Amazon, as well as HIV/AIDS prevention (Brazil has the second largest number of HIV cases in the world). The USAID program focuses primarily on these three global problem areas with strategic objectives (SOs) in the areas of environment, family planning, and HIV/AIDS prevention. In addition, very modest resources are being directed at two important issues which have regional implications: democratization and street children.

Due to legislative prohibitions regarding nuclear proliferation and debt, the new USAID program has been implemented without a bilateral agreement with the federal government. The program has been designed and implemented via U.S. PVOs, universities and central USIAD contractors/grantees. This approach has given program strategists and project designers unusual flexibility to work with Brazilian NGOs, state and local governments, and the private sector in establishing sector objectives and designing activities which bring Brazilian organizations together to solve common problems.

With a tiny budget in a large country, USAID has focused the activities within each SO in only a few carefully selected states where political and NGO leadership has shown a willingness to address important problems related to these areas. This will facilitate the development of model programs, as well as the testing and replication of innovations. USAID mission staff also work closely with larger donors, other states, and federal ministries to encourage their participation in addressing the SOs, replicating successful pilot projects, and changing policies based upon USAID's field experience. This strategic approach is reinforced by external evaluations which have found the USAID program to have had a significant impact in its chosen sectors, despite the small size of the program.

The management of this program is unique and may be a model for future USAID programs. The program is managed by only 2 USDH officers, 9 Brazilians and 1 U.S. PSC - 12 officers in total. This extremely low personnel:program funding ratio is matched by an equally low OE:program budget ratio. "Overhead" costs constitute only two percent of the program budget managed in Brazil. This is partly due to the important role that American organizations (e.g. PVOs, universities, grantees and contractors) play in coordinating sector programs and managing sub-grants to Brazilian NGOs, state and local governments, and private sector organizations.

This management approach is not only perhaps a model for other NPI countries, but--along with USAID's experience in building partnerships between NGOs-local governments and the private sector--puts USAID/Brazil in a unique position to carry out NPI objectives and effectively use special NPI funding.

In sum, Brazil is an NPI model for countries where:

- civil society is expanding roles and responsibilities;
- government responsibilities are beginning to shift from central to local level;
- the USAID staff is small and funding is tightly focused on a few objectives.

## II. Illustrative NPI Country Program

This discussion assumes that USAID/W will continue to insist that the USAID/Brazil program focus on no more than three SOs and 1-2 special problem areas--street children and democratization. How can NPI help expand the impact of this USAID program?

Presently, all mission programs are active at the local level in selected sites. The local activities are part of carefully designed strategic attempts to build up from these sites to influence government policies, and country-wide project selection and budget decisions by Brazilian government entities and by donors. The following are some initial ideas on how the key elements of NPI--enabling environment, capacity building, linkages and pilot projects--might be applied to one sector of the USAID/Brazil program: the At-Risk Youth (street children) or POMMAR program. These examples can be adapted to also increase the local impact of the other programs in the USAID portfolio.

- **Support the creation of local partnerships to address key municipal problems**

USAID's POMMAR project, implemented by a U.S. PVO, presently provides sub-grants to local institutions (NGOs and municipal governments) in three large cities in Brazil's poor Northeast. This innovative program is being carefully watched by large donors--especially the IDB and the World Bank--who plan to invest money in this sector.

NPI can stimulate the creation of local partnerships between NGOs, the municipal government and the small business sector in these cities to more systematically address the multiple causes of a widely recognized problem. An example is the recent establishment of a "Pacto da Cidade" made up of six NGOs and two local government agencies in one of the three project cities, Fortaleza. The "Pacto" was created after a Congressional inquiry to address the problem of child and adolescent prostitution. NPI funds channeled via POMMAR could finance a participatory review by the partners to clearly define what needs to be done to resolve the problem of child prostitution. POMMAR could then facilitate discussions about which institutions are best suited for which tasks and how their combined institutional efforts fit together. An outside organization such as



POMMAR can be essential both to facilitate the process and to provide a neutral venue for discussion when potential partners have a history of conflict, such as in another of the project cities--Recife--where the "Pacto" model is desperately needed.

- **Institutional Strengthening Grants to Build NGO Capacity**

Many NGOs have sprung up across Brazil in recent years in response to the very visible problems of homeless children, weaknesses in the adolescent justice system, child prostitution and children's rights. Most are well-meaning, but they are typically small, inexperienced, lack professional administrative or financial management, and are constantly bedeviled by the need to make the next payroll.

USAID experience in other sectors in Brazil has shown that small institutional strengthening grants to NGOs at this stage of development have been critical to the survival and growth in capacity of those Brazilian NGOs which now implement major programs. In AIDS prevention, for example, the major NGOs now managing up to \$1 million in donor and GOB funds were all aided in the previous decade by small "institutional strengthening grants" of various types provided by the MacArthur Foundation, Ford Foundation or USAID.

By providing small institutional strengthening grants to NGOs working with At-Risk Youth across the Northeastern region of Brazil, NPI would develop their capacity to absorb larger amounts of donor "project" money in the future and would help build a critical mass of organizations which together can have a real impact on this problem. This grant program might best be managed by a U.S. PVO.

- **Foster linkages between U.S. and Brazilian entities and among Brazilian entities**

USAID/Brazil has a very successful mechanism for fostering linkages among Brazilian NGOs. The mechanism has been managed by a U.S. PVO working with a Brazilian partner organization. Five national or sub-regional workshops and conferences are organized each year focusing on important sectoral issues (e.g. AIDS in the workplace, the role of NGOs in the democratization process, etc.). Often the results of USAID-funded pilot projects in Brazil or PVO or local government programs in the U.S. are highlighted. Unfortunately, due to lack of funds, USAID's role in the linkage process has stopped here.

Much more could be done to both stimulate sub-regional or national linkages between Brazilian local government entities and Brazilian PVOs who work with at-risk youth, and stimulate linkages between U.S. and Brazilian entities. A search by CDIE could help determine which kinds of USAID-fostered linkages have proved over the years to be most cost-effective and sustainable. These processes could be added to the Brazilian program and could be carefully monitored and evaluated

as a case study by CDIE to determine their impact. CDIE might also do a retrospective study of the sustainability of the myriad of U.S.-Brazil linkages very purposely established by the USAID program before the mission to Brazil was closed twenty years ago.

The following are other NPI-type activities that might be considered:

- Identify and award monetary prizes to "best practice" examples of partnerships between NGOs, local governments and small businesses to address a community issue;
- Strengthen or help establish NGO support associations in a Brazilian region (e.g. Amazon, Northeast) where NGOs are beginning to blossom;
- Finance short-term "people to people" training programs for local government officials to visit and learn from their counterparts in the U.S. Do the same for leaders of "less than mature" Brazilian NGOs;
- Support the municipal outreach programs of the Brazilian Institute for Municipal Administration (created with USAID assistance in the 1960s);
- Join with the IDB to finance a study of the "enabling environment" for NGOs at the federal government level and in a sampling of states.

### **III. Results and Indicators**

The results of NPI activities in Brazil should probably be measured over a five-year period, with an initial evaluation halfway through this period. Results would be measured in terms of:

- number and institutional strength of NGOs working in a sector/problem area;
- success of the partnership model in pilot cities and replication of the model;
- increased effectiveness of local governments in addressing selected problems (e.g. child prostitution); changes in local government policies or administrative procedures which previously hampered effectiveness;
- additional and more effective linkages between U.S. and Brazilian NGOs working in a particular sector and between Brazilian NGOs working in different geographic regions.

**Illustrative example #4 - PHILIPPINES**

**I. Country Context and NPI Rationale**

The Philippines has benefited recently from positive economic trends--a GNP growth rate of 5.1% in 1994, low inflation, and dramatic increases in foreign direct investment and export earnings--and these have been accompanied by an increased political and social stability since 1989. But the proportion of the population below the poverty line, 46%, has remained steady, driven by population growth and accompanied by marked environmental degradation.

During the last decade, the Philippines has attained levels of economic growth which approach levels necessary to support goals for sustainable development across sectors. Performance by the Philippines augurs well to make it a "model NIC democracy by the year 2000". But to assure success, increased access to the benefits of growth is still needed, and consolidation of democracy at the national level must be accompanied by broadened participation in the expression of interests and public policy outcomes at the local level. Growth with equity requires increased chances for direct participation in productive economic roles, and the tangible stake in broader social benefits that can come through broader-based community control of resources.

In 1991 the national government of the Philippines passed a revolutionary Local Government Code. The code's purpose is to decentralize authority and resources from the national government to local governments. Under the current revenue sharing formula, 40% of national revenues are given to local government units to carry out new responsibilities. In addition, the code mandates broad participation by local civil society in the key decision-making bodies of local government. USAID is currently initiating pilot projects with 10 local governments. This assistance will use participatory methods to establish more efficient service in critical areas of local governance. These areas will include resource mobilization, investment prioritization and promotion, and environmental planning and management. The participatory process will revolve around the Local Government Code's provision for local special bodies (including a health board, school board, environmental board, and an overall development council) that must have at least 25% membership from local NGOs.

Particularly since the fall of authoritarian rule in 1986, Philippine civil society has seen remarkable growth, marked by an expansive nongovernmental sector of over 20,000 NGOs representing a great diversity of goals, services, interests, and responses to widely perceived opportunities for organization and collective expression. In addition to its many partners in the health, population and social services areas, on the economic front, USAID and other donors similarly find a large number of capable private sector organizations, from agricultural export

associations and business advocacy groups to unions, cooperative federations, small business councils, and NGO service providers to microentrepreneurs. Parallel to a liberal business climate, legal and practical conditions to permit NGO registration and operation of activities are generally positive. At the same time, however, the large, diverse nongovernmental sector lacks cohesion, and links to disadvantaged and under-represented groups and communities are weak.

### **Current USAID Country Strategy and Program**

USAID's strategy to support the Philippine drive for growth with equity has posed four strategic objectives, each based on crucial partnerships with U.S. and local organizations. In addition to specific objectives for reduced population growth and improved health, and for enhanced management of renewable natural resources, two strategies already have strong NPI components. These two objectives are:

- enhanced economic participation (Mindanao emphasis), and
- broadened participation in the formulation and implementation of public policies/local governance

USAID has chosen to focus its economic strategy regionally on Mindanao, which ranks near the top in poverty and the bottom in social indices, income, and women's economic participation, even though the island is relatively resource rich. A key program goal, to expand participation of the lower income half of the population, requires improved access to markets and technology, as well as financial sector services. Here, USAID's track record with small business development programs is based on its work with advocacy and program partners such as the National Credit Council, Mindanao Business Council and chambers of commerce and industry, the Federation of Rural Cooperatives, export groups and universities, and will count on hundreds of Mindanao private and community organizations. "Results Packages" will, i.a., focus on:

- increased economic participation of Mindanao's lower income group, via new contract farming and other linkages between investors and small producers; new market links; improved production/marketing, and increased women's employment;
- national-level advocacy to deregulate and expand trade; and
- broadened participation in financial systems, via policy reforms and advocacy to expand microenterprise credit programs; facilitated micro-lending of coop banks.

Success in meeting USAID's strategic objective for broadened participation in policy formulation and implementation will depend on effectively implementing plans to devolve and decentralize power, and by creating successful alternatives to formal governmental processes by institutions of civil society, above all those that can empower citizens to address issues of local resource investments, sharing, and benefits. It will be crucial to work through partnerships that can help fashion and maintain avenues of access to groups of interests now under-represented in formal government processes. Results packages will focus on:

- direct assistance to strengthen the Leagues of Provinces, Municipalities, and Cities, and to Local Government Units (LGUs) in 10 provinces, to use participatory mechanisms to implement service delivery, prioritize investments, and plan for management of environmental resources;
- opening new arenas for disadvantaged communities and groups, especially via membership associations (i.a., agricultural laborers, fisherfolk, tribal minorities) and linking these through coalitions to centers of power; and
- an 18-month initiative to formulate a Philippine Democratic Action Agenda, through a broad coalition of NGOs, women's and producer groups, to promote the democratic process.

## **II. Illustrative NPI Country Program**

### **NPI opportunities with additional funding**

Additional synergies can be joined to the activities already underway in the Philippines. The USAID program, while drawing on the strengths of past country, USAID and donor experience, is relatively new, and is now based on reengineering principles of a Country Experimental Lab that have more fully integrated customer survey and participatory mechanisms in planning and design. Some areas where "seed capital" can find points of entry for impacts:

- **Economic participation, local governance:**

After another six to twelve months of "on-the-ground" experience, the timing will be ripe to join the work with Local Government Units with a "deeper" demand-side approach to local democracy-building. A number of local NGOs and membership-controlled associations will be more able to work with a larger number of local citizens' interest and community-based groups to organize around an agenda to influence decisions on use of resources that are made available by the LGUs. These would include both nationally-allocated revenues and, potentially,

locally-generated revenues. However, in many cases, some funding of operational and other costs, and assistance to conceive and manage local activities, will require new partners--or new "line items" in the budgets of current NGOs and other local partners in order to organize activities.

Whereas the current Mission strategy looks to working with communities in ten provinces, this strategy would ideally be extended horizontally, both within Mindanao, and possibly to one or more selected targets in other regions.

**NPI opportunities not requiring additional funds**

The above-described, more intensive work with local community-based groups, could potentially be undertaken with little or no additional funding to the extent that issues and approaches already identified at the local level and endorsed by self-interested political parties are supported by these latter. NGO partners that did not have additional funds for operational costs and/or "sub-grants" might be less able to engage local community groups on a continuous basis to organize around local issues and press interests before local councils.

There are possible synergistic impacts for a democracy strategy that looks to parliamentary and local elections, currently some two years away in the Philippines, to promote policies and candidacies from the USAID-supported coalitions seeking to enter the public policy arena. Cross-cutting themes of the strategy--especially, women's participation--would also be raised strategically by focusing efforts on, for example, work to organize women, and women candidates, via one or more of the coalition efforts.

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## ANNEX 2

### NPI INVENTORY

#### Introduction and Summary

The nature of NPI entails two distinct tracks to count: first, progress toward the Vice President's announced target of 40% of development assistance funding being channelled through PVOs and NGOs; and second, the degree to which USAID is already engaged and planning for NPI-type activities in NGO empowerment, small business partnership, and democratic local governance.

In Copenhagen, Vice President Gore committed the U.S. foreign aid program to channelling 40% of its development assistance funds through U.S.-based and local PVOs and NGOs within five years. Using FY 1994 as a base, 27.7% of USAID's development assistance was through PVOs and NGOs (including Cooperating Agencies). In dollar terms, this equates to \$590 million out of \$2,127 million.

Information on NPI activities in NGO empowerment, small business partnership, and democratic local governance is not readily retrievable from Agency systems. Thus, the NPI team asked missions and bureaus to examine their current and planned portfolios, and report on NPI activities in each of the three areas. The balance of this annex analyzes the mission responses.

With the caveat that problems associated with the timing of the inventory request and some initial confusion over the definitions make the results highly preliminary, we can offer the following summary results from the inventory.

Considerable activity was reported in all three NPI areas. Worldwide, local governance averaged \$168 million per year over the three year period FY 1995-FY 1997; small business, \$288 million; and NGO empowerment \$334 million. Because we opted to use, where available, FY 1997 levels at a 25% cut from FY 1996, the planning levels for FY 1997 are generally less than FY 1995 or FY 1996.

By Bureau, ENI and AFR had the most in local governance; ENI, followed by AFR, planned the most in the small business partnership area; and AFR and LAC predominated in NGO empowerment planned obligations.

#### The Inventory

The inventory was essentially a questionnaire sent to all missions and offices, through the bureaus. Definitions for each NPI activity were developed by the respective NPI task force. Basically, missions were asked to report on obliga-

tions planned for FY 1995 through FY 1997 for each of the three NPI components. Information was requested regardless of funding source, i.e., Development Assistance (DA), Development Fund for Africa (DFA), SEED, FREEDOM, and Economic Support Fund (ESF). Information is available by mission, by strategic objective and target of opportunity. In some cases, missions provided information on the implementing agents for their programs, i.e. contractor, university, NGO.

Although a response by mid-June was called for, data was late in arriving. Exercises such as this rarely achieve a 100% response, and, as of mid-July, we still lack data from several key missions and AID/W Bureaus. We are continuing to follow up.

**The Results**

By Bureau, missions reported the following plans for the three NPI components (\$ millions). Where appropriate, we have also identified data collection or definitional problems.

**1. NGO Empowerment**

Several missions apparently responded to the NGO empowerment category with general data on programming through NGOs, rather than that which was targeted at local capacity-building (as requested). This is somewhat understandable, given the still widely held perception that NPI is simply a programming target for channelling 40% of USAID assistance through PVOs/NGOs.

|       | <u>FY 1995</u> | <u>FY 1996</u> | <u>FY 1997</u> |
|-------|----------------|----------------|----------------|
| AFR   | 142.9          | 150.3          | 105.9          |
| ANE   | 41.8           | 47.9           | 43.0           |
| ENI   | 34.2           | 23.2           | 26.7           |
| LAC   | <u>115.6</u>   | <u>115.9</u>   | <u>111.2</u>   |
| Total | 334.5          | 337.2          | 286.7          |

**2. Small Business Partnership**

For the small business partnership, initial confusion over the definition of "small business" (enterprises with 11-50 employees) was resolved. However, some of the respondents may still have included microenterprise data (eg: in Africa).

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|       | <u>FY 1995</u> | <u>FY 1996</u> | <u>FY 1997</u> |
|-------|----------------|----------------|----------------|
| AFR   | 76.0           | 76.2           | 59.0           |
| ANE   | 25.3           | 38.4           | 48.6           |
| ENI   | 150.8          | 110.9          | 103.1          |
| LAC   | <u>30.4</u>    | <u>22.7</u>    | <u>25.3</u>    |
| Total | 282.5          | 248.2          | 235.9          |

### 3. Democratic Local Governance

Information provided about local governance activities may not in some cases reflect the NPI focus upon democratic local governance. Similarly, data regarding expenditures on the enabling environment (i.e., policy reform data) may not adequately reflect the intention to measure resources expended on creating an enabling environment conducive to local capacity-building.

|       | <u>FY 1995</u> | <u>FY 1996</u> | <u>FY 1997</u> |
|-------|----------------|----------------|----------------|
| AFR   | 44.5           | 71.4           | 47.7           |
| ANE   | 19.9           | 45.6           | 19.9           |
| ENI   | 67.8           | 36.0           | 38.3           |
| LAC   | <u>38.8</u>    | <u>41.8</u>    | <u>33.5</u>    |
| Total | 170.9          | 194.8          | 139.4          |

Missions with significant programs in one or more NPI areas include: Russia (all three), Ukraine (DLG, SBP), Egypt (all three), India (SBP, NGOE), Bolivia (NGOE), El Salvador (all three), Honduras (NGOE), Madagascar (NGOE), Uganda (SBP), and South Africa (DLG, NGOE).

Some final methodological notes: Where available (mostly AFR Missions), information on FY 1997 at the 25% cut level was used, and some missions provided data for only one year. In those cases, nothing was used. Finally, the information provided does not indicate whether these are partnership activities.

#### Next Steps on the Inventory

The data needs considerable review in order to return and have corrected obvious inconsistencies. Also, a concerted effort needs to be made to receive data from the missions and bureaus that have not responded.

ANNEX 3THE NPI PROCESS: PARTICIPATORY DESIGN**INTRODUCTION**

The unveiling of the New Partnerships Initiative four months ago launched an intensive consultation process with a broad array of development partners--including U.S. based and local PVOs and NGOs, coops, local officials, the business community, universities, community colleges, think tanks, foundations, academics, and other donors--as well as numerous USAID/W and USAID field personnel.

In order to make the process as broad-based and inclusionary as possible, a variety of different venues for public participation were established: direct involvement in the task forces and steering committee, two major public consultations, numerous talks with groups inside and outside the Agency, and the establishment of an electronic network and discussion group, NPI-NET.

Most importantly, the very process of elaborating NPI has reflected--both in spirit and in practice--the ideals of partnership, participation, cooperation and diversity embodied in the initiative itself. To demonstrate the richness of such an approach, the elaboration process is outlined below.

**THE INITIAL STAGES**

Subsequent to Vice President Gore's announcement of NPI on March 12, a cross-bureau team of USAID/W staff worked to develop a draft prospectus for the initiative, to be presented publicly at the April 12 meeting of the Advisory Committee on Voluntary Foreign Aid (ACVFA).

Despite the considerable time constraints faced by the team, a number of external partners were engaged in preliminary discussions even at this early stage of the process in order to ensure that the initiative was built from the ground up on a foundation of authentic partnership. The draft prospectus was the subject of numerous briefings and discussions with USAID staff from all the regional and central bureaus, including senior management and Development Planning officers. In addition, an Agency-wide Notice was issued on April 4 to provide information on NPI and invite input from USAID/W and field staff.

Deputy Administrator Carol Lancaster--NPI Coordinator--presented the prospectus at the ACVFA meeting and announced the formation of a Steering Committee and three task forces to build on the initial draft prospectus. She requested that a final report be produced under the direction of NPI's Deputy Coordinator, Cathryn L. Thorup, by mid-July, and that the process be fully participatory.

## **NPI STEERING COMMITTEE**

35 Steering Committee (SC) members were carefully chosen so that a wide variety of organizations, interests and USAID bureaus/missions was effectively represented (see Table 1). Individuals representing associations of NGOs and PVOs were especially sought so that--through these intermediaries--greater numbers of our development partners could be included in the NPI process. For example, one SC member is the head of FAVDO, a consortium of 450 African NGOs, while another is Vice President of InterAction, an association of approximately 160 PVOs.

Geographic location did not preclude seven individuals from participating on the SC as "virtual members," including donors from the Netherlands and Canada, as well as the Mayor of Abilene, Texas (who also heads the international division of the National League of Cities). Virtual members maintained close contact with the SC and provided input via electronic mail and facsimile, as well as personal attendance at some of the meetings and Public Consultations.

Following a handful of organizational meetings among USAID staff charged with developing the initiative, the SC met for two hours each week--12 times in all--between April 26 and July 17. The SC meetings served as a vehicle for tasking and monitoring the work of the TFs, as well as exploring a wide range of program issues associated with NPI (e.g., budget, reengineering, donor coordination, contracting, definition of types of partners, etc.). The meetings also served as a forum for active debate among USAID staff and partners about a wide range of design issues (interrelationship of the components, phasing in of the initiative, differentiation of NPI to country circumstances, etc.). The diversity of perspectives and the wealth of development experience were impressive, and the group demonstrated a remarkable convergence around focus, lessons learned, and goals of the initiative.

Detailed minutes from each of the meetings were prepared and served a number of purposes: they kept virtual members and those who missed a meeting "in the loop;" they clearly documented all of the substantive and procedural issues which arose; and they facilitated later preparation of the Core and Focus Reports.

Special emphasis was placed on inviting "Guests from the Field" to each of the SC meetings (see Table 7). For many, this was one of the most valuable and interesting aspects of the entire process. These guests--including Mission Directors, Deputy Mission Directors and Project Development Officers--were invited specifically to ground NPI in the realities of the field and to make the initiative a responsive and effective tool for building local capacity and enhancing partnership vehicles in every region. A gender advisor from one of the regional bureaus was also invited to speak with SC members and contribute ideas, signaling NPI's commitment to the empowerment of women.

Guests were invited to provide feedback as to: (1) how NPI could be implemented in a manner which takes advantage of--and expands the scope of--management reforms; (2) how ongoing and planned activities/programs in the field might be enhanced by NPI; (3) how the achievement of results and performance indicators under strategic/action plans might be affected; and (4) what types of management or other difficulties might be anticipated with respect to the initiative. The input provided was rich in its level of detail and underscored the need for NPI to be designed in a way that is sensitive to local realities.

## **TASK FORCES**

The **NGO Empowerment** task force (TF) initiated its activities with an introductory meeting on May 8. Weekly meetings were attended regularly by a core team of individuals (see Table 2) from the U.S. PVO and university community, as well as USAID personnel representing all of the Washington bureaus. In many instances, alternates from the outside community attended meetings when an initial TF member was traveling or unable to attend. Individuals from USAID/Niger and Bangladesh served as virtual members and added a critical field perspective. All TF members brought a wealth of knowledge, experience, dedication and passion to the goal at hand, which they applied steadfastly toward assisting USAID to determine the most effective approaches to local NGO empowerment and capacity building.

USAID personnel prepared initial drafts of specific sections of the TF's report: **Fostering an Enabling Environment for NGO Empowerment**, **Measuring NGO Empowerment**, and **Funding Vehicles for NGO Empowerment**. These documents formed the core of discussions for the program description ultimately decided upon, and were regularly revised and updated at the weekly meetings. Comments and input on the documents were sought regularly from beyond the task force as well. Task force members from outside USAID collected reactions and recommendations from within their organizations and communities and USAID staff shared the document among their colleagues, frequently via electronic networking.

The weekly discussions were wide-ranging, often provocative, but always productive. Each session raised new topics and issues that were debated and further researched during the period between meetings. The distribution of pertinent documents researched and collected by individual members since the previous meeting was the first order of business each week. Progress was steady and the final product reflects the hard work as well as the diversity of the TF members.

The **Small Business Partnership** TF was constituted to assure broad representation from both USAID/W and the field, the NGO community, business associations and small business consultants. In all, over forty USAID/W, mission personnel and outside partners contributed to the work of the group (see Table 2). USAID/Bangladesh, Hungary, Thailand, Senegal and Philippines served as virtual members of the task force.

Participation was specifically invited from ACVFA and InterAction, and TF members met with interested ACVFA members in a small workshop. Sub-groups were established on: the development rationale and policy requirements, women in business, and reengineering. Each of these sub-groups produced a separate annex, available to interested parties upon request.

The lack of a focused Agency program on small business made the aggregation of program data and lessons learned complex, which--in turn--made Task Force deliberations difficult. It is also clear from the TF discussions that the success of NPI will depend on the rapid and successful implementation of the reengineering initiative and associated changes in USAID's contracting procedures and organizational culture, both in Washington and in the field.

The Democratic Local Governance TF was formed by inviting various partners with extensive experience--together with seasoned USAID/W and field personnel--to develop a new approach to local governance programs. The 34 participants represented a variety of organizations, including urban associations, political development groups, think tanks, municipal development groups, donors, the State Department and USAID missions from around the world (see Table 2).

A series of working meetings was held in Washington in order for members to clarify concepts, set parameters and develop programmatic menus. Issues inciting lively discussion included: policy dialogue, sequencing, the focus on urban areas, and a comparison of current and past USAID governance programs. The minutes from each meeting were distributed via an electronic listserv, which was set up as a means for TF members to generate and express new ideas, and share their experiences across various regions.

The electronic network was successful in keeping all members abreast of the TF's progress and activities, and allowed for much greater participation and interaction--particularly by virtual members. The network facilitated the "ground-truthing" of new ideas and proposed programs by providing members with a better understanding of how important each element of governance is for local-level democratization to flourish. Some DLG TF members commented that the large number of submissions from colleagues and the tight NPI deadlines made it difficult to keep up with the reading materials and provide timely comments.

#### **OUTREACH TO USAID/W AND FIELD PERSONNEL**

From the earliest stages of elaboration of NPI, a concerted effort was made to involve Agency personnel from all operating units to the greatest extent possible (see Tables 6 and 7). Participation was fostered in a variety of ways by:

- sharing information and soliciting feedback through an Agency-wide General Notice (issued May 25);

- consulting with a variety of groups in USAID/W, including senior management, Development Planning and Democracy officers, and the Participation Working Group;
- briefing new Mission Directors and Deputy Mission Directors at their conference in June;
- encouraging USAID/W and field personnel to become involved in the task forces and Steering Committee; and
- inviting broad participation through the Public Consultations and NPI-NET.

### **CONSULTATIONS WITH OUTSIDE GROUPS/PARTNERS**

The list of briefings and meetings held with external partners (at Table 5) clearly demonstrates the breadth of participation in the NPI elaboration process and the energy devoted to this end by SC and TF members. Every effort was made to respond to all invitations to brief groups on the initiative. In addition, emphasis was given to proactively providing public fora for consultation with a wide array of actors interested in NPI, so that their views could be expressed, their expertise tapped, their concerns addressed and their ideas incorporated into the initiative.

### **PUBLIC CONSULTATIONS**

The first of two Public Consultations on NPI was held on May 25. The meeting was extremely well-attended, attracting dozens of USAID employees as well as nearly seventy external participants representing U.S. PVOs and NGOs, local NGOs, small business groups, foundations, universities, and municipal associations (see Table 3). The mix was representative of the sectors with which NPI will work and provided participants with an opportunity to hear the ideas and concerns of individuals and groups of diverse perspectives.

USAID Administrator J. Brian Atwood addressed the group, emphasizing the importance he places upon the initiative with its focus on local capacity building. Cathryn L. Thorup provided a detailed overview of NPI and described both the substantive challenges and the process by which the initiative is being developed. Danielle Roziewski spoke briefly about NPI-NET and explained how interested individuals worldwide can use this vehicle to actively contribute to the elaboration of NPI. SC member Bill Reese chaired a panel of the three task force leaders, who explained each of the components in greater detail. The session was then opened to general discussion and questions from those in the audience, many of whom

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were learning about NPI for the first time. The session ended with encouragement of further involvement on the part of the participants and an invitation to the second Public Consultation.

The second public forum was held on June 21 in conjunction with the quarterly ACVFA meeting, entitled "The USAID/PVO Partnership in Action" (see Table 4). After the first panel, the remainder of the morning was devoted entirely to NPI. Cathryn L. Thorup ushered in the session by providing a detailed overview of NPI--its origin, overarching rationale and components, its participatory process of elaboration, linkages with other Agency policies/ reforms, and general operational guidance.

Following a Question and Answer session with the audience, nearly two hundred participants broke into smaller discussion groups focusing on NPI's three components: NGO Empowerment, Small Business Partnership and Democratic Local Governance. The groups--moderated by ACVFA members and with NPI Task Force leadership as resource persons--discussed short report summaries and lists of questions that had been circulated prior to the meeting. This format allowed participants to deepen their knowledge of a particular NPI area, raise questions, share their expertise and generate new ideas. ACVFA members reported on their small groups' discussions at the end of the day--in each group, participants validated many of the points made in the full task force reports, and underscored or raised additional comments.

### **SESSIONS WITH OUTSIDE EXPERTS**

In order to broaden the scope of consultation still further and solicit feedback on both the theoretical underpinnings and technical ramifications of NPI, three separate sessions were held with outside academic and technical development specialists to discuss the initiative.

In the first session, a group was assembled--representing the university community, business associations, NGO and PVO communities, and small business consultants--to discuss the development rationale and enabling environment for NPI. There was an extensive discussion of the small business component, and consensus that a partnership between the business community and local government is critical to building local capacity. There was also agreement that the "demand" side of reform is critical, through the engagement of civil society in pressuring for improvements in the enabling environment.

The second session included representatives from the World Bank, Associates in Rural Development and Center for Concern. The group stressed the concept of "subsidiarity" as critical to NPI, i.e. moving resources and authority closer to the problem within a broader concept of rights and rules. A strong case was made that USAID has the advantage of grant funds and flexibility, as well as the ability to work directly with local groups. Growing out of its work in participa-

tion, the World Bank is also exploring the relative roles and responsibilities of the state and civil society. Civil society was seen as the final component in the development "mix" upon which donors must focus their attention. Importantly, there was agreement that NPI focuses on exactly the right sectors.

In the third session, some members of the SC and the NGO Empowerment Task Force met with Lester Salamon, Director of the Johns Hopkins Institute for Policy Studies and of the Comparative Nonprofit Sector Project. As Dr. Salamon is a highly visible and well-respected expert within the nonprofit community, his comments on NPI and the nongovernmental sector were especially insightful and helpful.

Dr. Salamon found the NPI concept to be right on target. He stressed the need to develop an array of vehicles and mechanisms to unleash initiative at the local level, and emphasized that work in the area of local democratic governance and NGOs must have local institutional roots to be effective. Based on his extensive research, he mentioned that government's relationship with the nonprofit sector is actually more collaborative than commonly believed and should be viewed in terms of a managed interdependence, combining the best of partnership and autonomy. Finally, Dr. Salamon highlighted the importance of addressing the infrastructure of the nonprofit sector as a whole and explicitly strengthening its capacity through intermediary service organizations.

## **DONOR COORDINATION**

There has been a concerted effort to involve selected donors in the development of NPI from its inception, a number of whom have extensive experience and ongoing programs in related areas. Their cooperation will be essential to the establishment of an effective policy dialogue on improving the enabling environment.

Canadian CIDA and The Netherlands participated as virtual SC members, representatives from the World Bank served on the Small Business Task Force, and representatives from both the Inter-American Development Bank and the Canadian International Development Agency (CIDA) served on the Democratic Local Governance Task Force. Moreover, the Inter-American Foundation and the Ford Foundation have also expressed interest in getting involved with NPI. A number of individuals have specifically commented on their surprise at--and appreciation for--being included so early in the elaboration process.

In addition to providing input via these formal meeting channels over the three-month period, donors were very much involved in reviewing and commenting on the final draft NPI Report. Specific feedback was provided by both the World Bank and CIDA on the NGO and Small Business Focus Reports, and by The Netherlands on the Core Report. The World Bank has specifically offered to collaborate in assessment activity under NPI.



In mid-June, SC members Larry Garber and Norm Nicholson met with donors from Sweden (SIDA), the European Union and The Netherlands. Norm Nicholson also consulted with Canadian CIDA in Ottawa. The purpose of the trip was to brief them on NPI and to discuss their possible contributions and cooperation. All three donors were in agreement with the fundamental development rationale of NPI and felt that the three NPI components were critical elements of local capacity building. The donors also expressed interest in improving performance measurement, as well as developing partnerships of nongovernmental actors--both of which are central to NPI.

### **NPI-NET**

In order to take advantage of the increasing use of network communications at USAID--particularly as such linkages become more innovative--high priority was given to the establishment of an electronic network and discussion group specifically dedicated to the initiative, NPI-NET. All public documents pertaining to NPI are accessible on-line and may be retrieved by subscribers, who currently number sixty-seven.

The network serves a number of functions: (1) it is an effective vehicle for disseminating information on NPI to a whole range of USAID's development partners, particularly those outside of the Washington area; (2) it provides a widely accessible, open and interactive forum for all those interested in the initiative, particularly USAID/W employees and field personnel, and a wide variety of nongovernmental actors in the U.S. and abroad; and (3) it serves as a means for generating ideas, stimulating discussion, voicing concerns and increasing communication between all development partners.

**TABLE 1**

|                   |                        |
|-------------------|------------------------|
| Carol Lancaster   | NPI Coordinator        |
| Cathryn L. Thorup | NPI Deputy Coordinator |

**LIST OF STEERING COMMITTEE MEMBERS**

|                 |                    |                            |
|-----------------|--------------------|----------------------------|
| <b>USAID/W:</b> | Cathryn L. Thorup  | PPC (chair)                |
|                 | Russell Anderson   | G/EG/EIR                   |
|                 | Liz Baltimore      | M/ROR                      |
|                 | Gerald Britan      | PPC/CDIE                   |
|                 | Ramon Daubon       | LAC                        |
|                 | Larry Garber       | PPC/SA                     |
|                 | Curt Grimm         | AFR/DP/PSE                 |
|                 | Robert Herman      | ENI/PCS/PS                 |
|                 | Nyka Jasper        | LPA                        |
|                 | Pat Jordan         | PPC/CDIE                   |
|                 | Carolyn Karr       | GC/BHR                     |
|                 | Diane La Voy       | PPC/SP                     |
|                 | Adele Liskov       | BHR/PVC                    |
|                 | Norm Nicholson     | PPC/DC                     |
|                 | John Norris        | LPA/PL                     |
|                 | Kathleen O'Hara    | M/OP/POL                   |
|                 | Sher Plunkett      | M/ROR                      |
|                 | Len Rogers         | BHR                        |
|                 | Danielle Roziewski | PPC                        |
|                 | Mike Rugh          | PPC (budget working group) |
|                 | Elise Storck       | BHR/PVC                    |
|                 | Carolyn Weiskirch  | PPC/DP                     |

**OUTSIDE PARTNERS:**

Bob Chase, World Learning  
 Gloria Davis, World Bank  
 Peter de Haan (designated), the Netherlands  
 Vivian Lowery Derryck, African-American Institute  
 Tom Fox, World Resources Institute  
 Janine Hutt (designated), CIDA  
 Carolyn Long, InterAction  
 Gary McCaleb, National League of Cities  
 Gabriel Negatu, FAVDO

John Pielemeier, Consultant  
Bill Reese, Partners of the Americas  
John Sullivan, U.S. Chamber of Commerce  
Jennifer Tufts, European Union  
Norman Uphoff, Cornell University

**CORE DRAFTING TEAM**

|                    |            |
|--------------------|------------|
| Russell Anderson   | G/EG/EIR   |
| Larry Garber       | PPC/SA     |
| Curt Grimm         | AFR/DP/PSE |
| Robert Herman      | ENI/PCS/PS |
| Pat Jordan         | BHR/PVC    |
| Norm Nicholson     | PPC/DC     |
| Len Rogers         | BHR        |
| Danielle Roziewski | PPC        |
| Cathryn L. Thorup  | PPC        |

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**TABLE 2.**

**LIST OF TASK FORCE MEMBERS**

**\*NGO EMPOWERMENT\***

|                 |                |             |
|-----------------|----------------|-------------|
| <b>USAID/W:</b> | Len Rogers     | BHR (chair) |
|                 | John Anderson  | ANE/SEA     |
|                 | Sharon Epstein | LAC/RSD     |
|                 | John Grant     | BHR/PPE     |
|                 | Curt Grimm     | AFR/DP/PSE  |
|                 | Robert Herman  | ENI/PCS     |
|                 | Sallie Jones   | BHR/PVC     |
|                 | Adele Liskov   | BHR/PVC     |

**USAID FIELD PERSONNEL:**

- USAID/Bangladesh
- USAID/Niger

**OUTSIDE PARTNERS:**

- Caryle Cammisa, ACAP
- Ginny Hammell, NASULGC
- Arlene Lear, Counterpart Foundation
- Melinda Moree, PATH
- Sarah Newhall, PACT
- Bonni Ricci, World Learning
- Mary Thormann, IED
- Stephanie Weishaar, WINROCK

**\*SMALL BUSINESS PARTNERSHIP\***

|                 |                  |                  |
|-----------------|------------------|------------------|
| <b>USAID/W:</b> | Russell Anderson | G/EG/EIR (chair) |
|                 | Gregg Baker      | ANE/SEA/EA       |
|                 | John Coakley     | PPC              |
|                 | Monique Cohen    | G/EG             |
|                 | John Godden      | OSDBU            |
|                 | Dana Ireland     | PPC              |
|                 | Norm Nicholson   | PPC/DC           |
|                 | Rosalie Norem    | G/WID            |

|                |             |
|----------------|-------------|
| Ron Stryker    | G/EG/EFS    |
| Paul Ulrich    | G/EG/MD     |
| Gary Vaughn    | LAC         |
| John Wilkinson | G/EG        |
| Edmund Wise    | G/EG/BDS    |
| Robert Young   | AFR/ARTS/EA |

**USAID FIELD  
PERSONNEL:**

|               |                   |
|---------------|-------------------|
| Dick Brown    | USAID/Bangladesh  |
| Mitzi Likar   | USAID/Hungary     |
| Gene Morris   | USAID/Thailand    |
| Cameron Weber | USAID/Senegal     |
| Gordon West   | USAID/Philippines |

**OUTSIDE PARTNERS:**

Tony Barkley, International Development Committee,  
Professional Services Council

Cliff Barton, IMCC

Kimberly Brown, Counterpart Foundation

Larry Cooley, Management Sciences International

Jean Downing, Appropriate Technology Inc.

Barbara Ferris, International Women's Democracy Center

Monica Fong, World Bank

Barbara Foster, TSS Institute for Education  
and Development

John Galles, National Small Business United

Tom Gray, National Federation of Independent  
Businesses

Jim Hostetler, Small Business Foundation of America

Nick Kulibaba, Abt Associates

Aubrey Mills, Salesian Missions

Bob Morgan, Council on Growing Companies

Allen Neece, Jr., National Venture Capital Association

Eric Nelson, Development Alternatives Inc.

Marlee Norton, National Telephone Cooperative Assoc.

John Satagaj, Small Business Legislative Council

Karen Sherman, Counterpart Foundation

John Sullivan, Center for International Private Enterprise

David Voight, Small Business Council, USCHAMBER

Harvey Wallender, International Executive Service Corps

Leila Webster, World Bank

Russ Webster, Management Sciences International

C. Jean Weidemann, Weidemann Associates

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**\*DEMOCRATIC LOCAL GOVERNANCE\***

|                 |                  |                          |
|-----------------|------------------|--------------------------|
| <b>USAID/W:</b> | Larry Garber     | PPC/SA (chair)           |
|                 | Chuck Costello   | G/DG (exofficio)         |
|                 | Patrick Fn'Piere | G/DG                     |
|                 | Gary Hansen      | PPC/CDIE/POA (exofficio) |
|                 | Susan Kosinski   | ENI/DG/RLG               |
|                 | Jenna Luche      | G/WID                    |
|                 | Frank Method     | G/HCD/PP                 |
|                 | Norm Nicholson   | PPC/DC                   |
|                 | Ted Priftis      | ENI/DG/RLG               |
|                 | Maria Rendon     | ANE/SEA                  |
|                 | Shelley Rojano   | PPC                      |
|                 | Steve Sharp      | G/ENV/UP                 |
|                 | Bob Shoemaker    | AFR/SD/HRD               |
|                 | David Yang       | ANE/SEA/SPA              |

|                               |                  |                          |
|-------------------------------|------------------|--------------------------|
| <b>USAID FIELD PERSONNEL:</b> | Tamara Arsenault | USAID/Poland             |
|                               | Carleene Dei     | USAID/South Africa       |
|                               | John Fisher      | USAID/Guatemala          |
|                               | Rene Lemarchand  | REDSO/WCA                |
|                               | Kris Loken       | USAID/EI Salvador        |
|                               | David Painter    | RHUDO/NE - Tunisia       |
|                               | Cynthia Rozell   | USAID/Malawi             |
|                               | Ken Schofield    | USAID/Philippines        |
|                               | Marilyn Zak      | USAID/Dominican Republic |

**OUTSIDE PARTNERS:**

John Arbogast, Department of State  
 Juanita Crabb, Sister Cities International  
 Vivian Lowery Derryck, African American Institute  
 Peter Feiden, International City Managers Association  
 JoMarie Griesgraber, Center for Concern  
 Jorge Landivar, Inter-American Development Bank  
 Gary McCaleb, National League of Cities  
 Tom Melia, National Democratic Institute  
 Bernard Ross, American University  
 Bruce Schearer, Synergos  
 Ken Sherper, UNDP  
 Ray Shonholtz, Partners for Democratic Change  
 Lisa VeneKlasen, InterAction  
 Scott Wade, Canadian Internat'l Development Agency (CIDA)  
 Susan Wickwire, Department of State

**TABLE 3.****PUBLIC CONSULTATION #1 (MAY 25) - REGISTRATION LIST**

| <b>NAME</b>        | <b>AFFILIATION</b>  |
|--------------------|---|
| Adrienne Allison   | Center for Development & Population Activities                    |
| Celeste Angus      | ORT International   |
| Liz Battocletti    | Citizen's Network for Foreign Affairs                             |
| Mark Bidus         | International City Managers Association                           |
| Anita Bonds        | Africare  |
| Patricia Bossany   | Overseas Cooperative Development Council                          |
| Shawn Bradley      | Planning Assistance   |
| Jim Brooks         | National League of Cities   |
| Maureen Budetti    | Assoc. Liaison Office for University and Corporation Development  |
| Valeria Budinich   | Appropriate Technology International                              |
| Ron Burkard        | CARE  |
| Bob Chase          | World Learning  |
| Don Crane          | Agriculture Cooperation Development International                 |
| Al Decie           | Fund for Democracy and Development                                |
| Nik Dehejia        | Committee on Agricultural Sustainability for Developing Countries |
| Jonathan Deull     | The Hunger Project  |
| Mary Donaldson     | Partners of the Americas  |
| Ron Epstein        | VITA  |
| Dr. William Fiebig | Rodale Institute  |
| Gary Filerman      | Pew Health Commission   |
| Heather Foote      | Unitarian Universalist Service Committee                          |
| Tom Fox            | World Resources Institute   |
| Dorothy French     | Medical Care Development International                            |
| Doug Greene        | Catholic Relief Services  |
| Peter Gubser       | Amer. Near East Refugee Aid                                       |
| Deborah Harding    | German Marshall Fund  |
| Mark Haskell       | American International Health Alliance                            |
| George Ingram      | Citizens Democracy Corps  |
| Joel Lamstein      | World Education   |
| Jerry Leach        | Citizen's Network for Foreign Affairs                             |
| Arlene Lear        | Counterpart Foundation  |
| Joan Leavitt       | VOCA  |
| Carolyn Long       | InterAction   |

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|------------------------|--|
| Frank Lostumbo         | National Council for International Health                            |
| Bruce Mazzie           | Agriculture Cooperation Development International                    |
| Jill Merrick           | International Center for Research on Women                           |
| Leslie Mitchell        | PACT   |
| Robert S. Morgan       | Council of Growing Companies   |
| Carol Morton           | Church World Service   |
| Melissa Moye           | Debt for Development   |
| Dr. Floyd Murdoch      | Adventist Development & Relief Agency<br>International               |
| Gabriel Negatu         | FAVDO  |
| Miriam Neugeboren      | Habitat for Humanity International                                   |
| Melissa Nuwaysir       | ACVFA  |
| Ismael Ouedraogo       | Abt Associates   |
| Audrone Pakstys        | U.S. Baltic Foundation   |
| Sharon Pauling         | Bread for the World  |
| Blair Phifer           | Center for Democracy   |
| Bill Reese             | Partners of the Americas   |
| Rosemary Regis         | Salvation Army   |
| Dana Reilly            | PACT   |
| Regina Ann Rippetoe    | Esquel Group Foundation  |
| Peter Rosenblatt       | Fund for Democracy and Development                                   |
| John Ross              | Debt for Development Coalition                                       |
| Kristin Schafer        | Committee on Agricultural Sustainability for<br>Developing Countries |
| Pat Scheid             | Aga Khan Foundation  |
| Elizabeth Scott        | Goodwill Industries  |
| Cathy Selvagio         | Bread for the World  |
| Karen Sherman          | Counterpart Foundation   |
| Patricia Sinay         | Partners of the Americas   |
| Julie Smith            | Enersol Associates   |
| Bill Spencer           | Washington Office on Latin America                                   |
| Jean Stokan            | SHARE Foundation   |
| Kate Thomas            | ORT International  |
| Steven Tullberg        | Indian Law Resource Center   |
| Martha Cecilia Villada | Partners of the Americas   |
| Harvey Wallender       | International Executive Service Corps                                |
| Kimberly Welch         | Center for International Private Enterprise                          |
| Wade West              | Global Livestock Discussion Group                                    |
| Tom Zopf               | Food Aid Management  |



**TABLE 4.****PUBLIC CONSULTATION #2 (JUNE 21) - REGISTRATION LIST**

| <b>NAME</b>        | <b>AFFILIATION</b>  |
|--------------------|---|
| Erica Agiewich     | Delphi International  |
| Dawn Alexander     | IUCN - World Conservation Union                             |
| Tara Anderson      | International Research & Exchange Board                     |
| Clarissa Askoul    | International Organization for Immigration                  |
| Byron Bahl         | Centech   |
| Joan Baird         | International Development Business Consultants              |
| Jillian Barnes     | American University   |
| David Bathrick     | Assoc. for International Agriculture & Rural<br>Development |
| Richard Belous     | National Planning Association                               |
| Karen Bennett      | International Rescue Committee                              |
| Sandra Bettder     | International City Managers Association                     |
| Edward Betzig      |   |
| Mark Bidus         | International City Managers Association                     |
| Barbara Bloch      | Partners of the Americas                                    |
| Hans-Better Boe    | International Organization for Immigration                  |
| Carroll Bouchard   | African Development Foundation                              |
| Michael Bowers     | Counterpart Foundation                                      |
| Mark Brady         |   |
| Stephen Brager     | Terra Sequa International                                   |
| Rachel Brandenburg | World Bank  |
| Michael Briggs     | InterAction   |
| James Brooks       | National League of Cities                                   |
| Ralph Alex Brown   | Food First, Inc.  |
| Kimberly Brown     | Counterpart Foundation                                      |
| Maureen Budetti    |   |
| Mayra Buvinic      | International Center for Research on Women                  |
| Carol Cammisa      | ACAP  |
| Carol Capps        | Church World Service/Lutheran World Relief                  |
| Bob Carlin         |   |
| Julie Carvalho     |   |
| Robert Chamberlain | Salesian Mission  |
| Audree Chase       |   |
| Robert Chase       | World Learning  |
| Sandi Chesrown     | CMIG  |
| Kristin Clay       | Institute for Multi-Track Diplomacy                         |

|                          |  |
|--------------------------|--|
| Linda Cobey              |  |
| Rebecca Coleman          | Family Health International                    |
| Jenkins Cooper           | The Mitchell Group, Inc.                       |
| Vincent Costa            | University of Pittsburgh                       |
| Susan Cox                | Holt International Children's Services         |
| Susan Crowley            | Merck & Co.                                    |
| Christen Cabbage         |  |
| Peggy Curlin             | Center for Development & Population Activities |
| Randall Curtis           | Nature Conservancy                             |
| James Dalton             | Associates in Rural Development                |
| Daniel Dada              | Nigerian Medical Assistance Corp.              |
| Heather Davis            | International Research & Exchange Board        |
| Jim Davis                | University of Maryland                         |
| Jacqueline DeCarlo       | Immigration and Refugee Services of America    |
| Jean Decker-Matthews     | International Labor Organization               |
| Jennifer DeLay           |  |
| Vivian Lowery Derryck    | African-American Institute                     |
| Kate Dickson             | Pan American Health Organization               |
| John Ditty               | Global Operations and Development              |
| Korsi Dogbe              | Virginia General Assembly                      |
| Polly Donaldson          | Partners of the Americas                       |
| John Donnelly            | Catholic Relief Services                       |
| Jack Downey              | Academy for Educational Development            |
| Ajit Dutta               | DATEX  |
| Kate Eilbert             |  |
| Nagla El-Bassoini        | AMIDEAST                                       |
| Jim Feaster              | Partners of the Americas                       |
| Peter Feiden             | International City Managers Association        |
| Silvia Patricia Figueroa |  |
| Catherine Fischer        | United Methodist Committee on Relief           |
| Julie Fischer            | Fischer, Peck Associates                       |
| Sandra Foster            | HOPE Worldwide                                 |
| Kristine Fowels          | African Development Foundation                 |
| Thomas Fox               | World Resources Institute                      |
| Carmen Franceschi        |  |
| Harold Freeman           | EDC  |
| Gregory Gagarin          | Congress of Russian Americans                  |
| David Geilhufe           | IM&D   |
| Ann George               | IREX   |
| David Gibson             | Tropical Forest Management Trust               |
| Gregory Gofflied         | IMC  |
| Steve Goldstein          | John Hopkins University                        |

|                        |  |
|------------------------|--|
| Ron Gollehon           | ACDI   |
| Steven Goune           | The Mitchell Group, Inc.   |
| Janet Green            | InterAction  |
| Theresa Gregory        |  |
| William Gregory        |  |
| Peter Gubser           | ANERA  |
| Michael Gugulis        | Medical Service Corp. Int'l  |
| Ann Gunnings           | Service & Development Agency   |
| Pat Healy              | Catholic Medical Missions Board                                      |
| Armi Heinonen          | Minister/Counselor, Embassy of Finland                               |
| Melissa Henton         | Atlantic Council   |
| Judith Hermanson       | Cooperative Housing Foundation                                       |
| Donald Honicky         |  |
| Ronald Howard          | OIC International  |
| Mark Huett             | University of Pittsburgh/IMDI and Int'l Training<br>Management Group |
| Connie Hughes          | Elwyn Inc.   |
| Mauricette Hursh-Cesar | FIC - Global Women   |
| Gwendolyn Ingrham      | Development Economics Group  |
| Kate Iskander          | African American Labor Center  |
| Lonni Jackson          | World Relief   |
| Bruce Jay              | AIFLD  |
| Marsha Jerrett         | ABT Associates   |
| Satomi Kamei           | OEFC of Japan  |
| Stafford Kay           | Phelps-Stokes Fund   |
| Natalya Keikuatov      | Congress of Russian Americans  |
| Eileen Kelly           | NASW   |
| Jack Kennedy           | Catholic Medical Missions Board, Inc.                                |
| Joseph Kennedy         | Africare   |
| Nita Christine Kent    | National Planning Association  |
| Le Xuan Khoa           | Southeast Asia Resource Action Center                                |
| Ronald Kirshner        | General Accounting Office  |
| Maxim Kishmir          | International Equity Management                                      |
| Doug Konselman         |  |
| Susan Koscis           | Search for Common Ground   |
| Carla Kovich           |  |
| Tracy Kroner           | LBII   |
| Ksenia Kzyzyk          | Children of CherynobyI Relief Fund                                   |
| Lily Lai               |  |
| Robert Lawrence        | Rockefeller Foundation   |
| Arlene Lear            | Counterpart Foundation   |
| Jun Lee                | Communitarian Network  |

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|                    |                                       |
|--------------------|---------------------------------------|
| David Lempert      | Unseen America Projects               |
| Susan Lenderking   | Academy for Educational Development   |
| Martha Lewis       | Partners of the Americas              |
| Claudia Liebler    | GEM Initiative                        |
| Tonette Long       | Delphi International                  |
| Gerald Lore        | Project Hope                          |
| Amy Luckey         | InterAction                           |
| Rahima Mamdam      | Aga Khan Foundation                   |
| Ada Jo Mann        | GEM Initiative                        |
| C. L. Mannings     | OIC International                     |
| Larry Marinelli    | Salesian Missions                     |
| Francis Masson     |                                       |
| Mekos Marshale     |                                       |
| Gary McCaleb       | National League of Cities             |
| Keith McCallum     | Global Operations and Development     |
| Elizabeth McCarthy | UNDP                                  |
| Fr. Edward McMahon | Catholic Medical Missions Board, Inc. |
| Wayne Medendorp    | Christian Reformed World Relief Comm. |
| Carrie Meyer       | George Mason University               |
| Aubrey Mills       | Salesian Missions                     |
| Louis Mitchell     | PACT                                  |
| Rachel Monahan     | Center for Victims of Torture         |
| Kelly Morris       | Peace Corps                           |
| Melissa Moye       | DDC                                   |
| Karen Muir         | International Executive Service Corps |
| Irene Natividad    |                                       |
| Lisa Nelson        | National Audobon Society              |
| Sara Newman        |                                       |
| Robert Nicolas     | Curtis Lewis & Associates             |
| Linda Nkojo        |                                       |
| Eleanor Norwood    | Smithsonian Health Services           |
| William Novelli    | CARE                                  |
| Melissa Nuwaysir   |                                       |
| Melanie Oliviero   | Panos Institute                       |
| Elizabeth Olson    | American Red Cross                    |
| Fred Olson         |                                       |
| Maria Otero        | ACCION International                  |
| Yinka Oyinlola     | Curtis Lewis & Assoc.                 |
| Henry Panlibuton   | Technoserve                           |
| Susan Parker       | Rehabilitation International          |
| Leslie Patykewich  |                                       |
| Pamela Pelletreau  | American University                   |

|                         |  |
|-------------------------|--|
| Barbara Phillips        | Development Economics Group  |
| Adrienne Poulton        | IREX   |
| Eliot Putnam            |  |
| Bahram Rajaei           | University of Delaware, Office of Int'l Programs                             |
| Forest Rawls            | Bruce Morgan Associates  |
| William Reese           | Partners of the Americas   |
| Rosemary Regis          | Salvation Army World Service Office  |
| Dr. John Reutayuga      | Ukimwa Orphan's Association & Center for<br>National & Traditional Medicines |
| Bonnie Ricci            | World Learning   |
| Andrew Rice             | IDC  |
| Jill Rizika             | World Learning   |
| Rebecca Robbins-Pollard | Kapnek Charitable Trust  |
| Sravani Ghosh Robinson  | OIC International  |
| Irving Rosenthal        | CDME   |
| John Ross               | Debt for Development Coalition   |
| Melissa Rubin           | PPFA, Inc.   |
| Brad Rutherford         | Winrock International  |
| Martha Saldinger        | HVO  |
| Rachel Savidis          | Academy for Educational Development  |
| Tania Sawa              | Children of Chernobyl Relief Fund  |
| Joseph Scelzo           | Small Business Foundation of America   |
| Sue Schram              | Consortium for Int'l Earth Science Info Network                              |
| David Scotton           |  |
| Peter Sellar            |  |
| Paul Sevier             | TechnoServe  |
| Victoria Sheffield      | International Eye Foundation   |
| Walter Sherwin          |  |
| Minha Sheikh            | Aga Khan Foundation  |
| Rebecca Sholes          | SID/WID  |
| Art Simon               | Christian Childrens Fund   |
| Peter Simpson           | Delphi International   |
| Patricia Sinay          | Partners of the Americas   |
| Marie Sincabid          | Pearl S. Buck Foundation   |
| Marie Sincavage         | Pearl S. Buck Foundation   |
| Aurora Siy              | National Center for Nonprofit Boards   |
| Joe Skelda              | SBFA   |
| Elise Fiber Smith       | Winrock International  |
| Thomas Springer         | Institute for Central American Studies                                       |
| Maria Stephens          | Treasury Dept.   |
| Dahlia Stein            | National Planning Association  |
| Paula Stinson           | ANERA  |

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|                        |  |
|------------------------|--|
| Deborah Stringer       | PATCO, Inc.                                      |
| Tucker Stuart          |  |
| Dennis Stuessi         | International Aid                                |
| John H. Sullivan       | Development Associates, Inc.                     |
| Byron Swift            | Environmental Law Institute                      |
| Dr. Samuel Taddesse    | World Class Schools                              |
| Julia Taft             | InterAction                                      |
| Waco Takahashi-Welch   | Japanese International Cooperation Agency (JICA) |
| Kate Thomas            | ORT International                                |
| Kitty Thuermer         | Population Service International                 |
| Robbie Tish            | International Youth Foundation                   |
| Lewis Townsend         | Fund for Democracy                               |
| Paul Tuchmann          | Rendon Group                                     |
| Elizabeth Tuico        | National Council for International Health        |
| Dr. Jerry Lee Underfer | University of Toledo                             |
| Lydia Usami            | International Alert                              |
| Bonni VanBlarcom       |  |
| Martha Cecilia Villada | Partners of the Americas                         |
| Sylvia Virreira        | Points of Light                                  |
| Carmen Votaw           | Girl Scouts of the USA                           |
| Gary Walker            | IM&D   |
| Harvey Wallender       | International Executive Service Corps            |
| Martha Walsh           | AFFLI  |
| Robert Ward            |  |
| Sheila Ward            |  |
| Monica Ware            | NIS  |
| David Waugh            | International Labor Organization                 |
| Ted Weihe              | Overseas Cooperative Development Council         |
| Kimberly Welch         | Center for International Private Enterprise      |
| Darcy Wertz            | African American Labor Center                    |
| Bruce White            | Future Farmers of America                        |
| Maurice Williams       | Overseas Development Council                     |
| Richard Williams       | World Environment Center                         |
| Roberta Wirth          | Medical Service Corp. International              |
| Teshome Wondafrash     | Nutifill   |
| Tim Yarling            | Japanese International Cooperation Agency (JICA) |
| Renee Yates            |  |
| Beverly Yourmans       | International Orthodox Christian Charities       |
| Nicole Zimmerman       | ARS  |
| Tom Zopf               | Food Aide Management                             |
| Marilyn Zuckerman      | NPA  |

**TABLE 5.****LIST OF BRIEFINGS/CONSULTATIONS  
WITH OUTSIDE PARTNERS**

|  |          |
|--|----------|
| Meeting of senior USAID staff with leaders of InterAction  | March 21 |
| ACVFA Subcommittee meeting on the USAID/PVO Partnership  | March 30 |
| Meeting with representative of the Synergos Institute  | April 3  |
| ▶ Meeting with representatives of NASULGC (National Association of State Universities and Land Grant Colleges) | April 10 |
| Introduction of NPI and issuance of the draft prospectus at quarterly ACVFA Meeting                            | April 12 |
| Briefing to the U.S. Overseas Cooperative Development Council  | April 18 |
| Meeting with representative of the General Accounting Office   | April 25 |
| Meeting with Council of Foreign Relations, Study Group on Non-State Actors                                     | April 27 |
| Briefing to the <i>Annual Forum with African NGO Leaders</i> , sponsored by the Africa Bureau and InterAction  | May 4    |
| Briefing to the Committee on Agricultural Sustainability in Developing Countries                               | May 9    |
| Meeting with the Executive Director of the PANOS Institute   | May 18   |
| Meeting of various ACVFA members with the Administrator  | May 19   |
| First of two Public Consultations on NPI, attended by nearly 70 external partners and dozens of USAID/W staff  | May 25   |
| Briefing to the Task Force on Community Colleges   | May 26   |

- ▶ Meeting with academic/technical experts on the development rationale and enabling environment for NPI. Participants included Cliff Barton (IMCC), Norman Uphoff (Cornell University), Chas Cadwell (IRIS), Tom Gray (DAI) and John Sullivan (CIPE) June 6
- ▶ Meeting regarding NGO/PVO issues with representatives of the Inter-American Foundation June 8
- ▶ Participation in a DAC seminar on civil society and consultations with various other European donors (SIDA, the Netherlands, the EU) June 14-16
- ▶ Various meetings/briefings with the Civil Society Task Force of the Summit of the Americas April 10  
May 22  
June 26
- ▶ Second of two Public Consultations on NPI, held in conjunction with the quarterly ACVFA meeting, attended by over 200 people June 21
- ▶ Second meeting with group of academic/technical experts, including Gloria Davis (World Bank), Jamie Thompson (ARD), and Jo Marie Griesgraber (Center for Concern) June 22
- ▶ Meeting with representative of the American International Health Alliance June 23
- ▶ Meeting with White House Office of Public Liaison regarding linkages between NPI and the President's "Common Ground" initiative June 26
- ▶ Participation in USIA Conference: "CIVITAS@Prague.1995: Strengthening Citizenship and Civic Education" July 1-6
- ▶ Various meetings of Steering Committee member Gabriel Negatu with African NGOs early July
- ▶ Third meeting with academic/technical experts, with Lester Salamon of Johns Hopkins University July 6



- ▶ Meeting of InterAction members to discuss NGO Empowerment task force report. Among PVO/NGO participants were representatives of NGOs in Burkina and Senegal      July 11
  
- ▶ Briefing to CEDPA training course for NGO officials, including participants from China, Mexico, Vietnam and Nigeria.      July 11

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**TABLE 6.**

**LIST OF BRIEFINGS/CONSULTATIONS  
WITH USAID/W PERSONNEL**

|   |               |
|---|---------------|
| Briefing for Development Planning officers  | March 14      |
| ▶ Briefing at Senior Staff Meeting  | March 28      |
| Briefing to the Participation Working Group   | March 29      |
| Briefing for Deputy Assistant Administrators and Development Planning officers  | March 31      |
| Briefing for the Sustainable Development Council  | April 5       |
| ▶ Meeting with the Deputy Director of Human Resources   | April 27      |
| ▶ Briefing at Senior Staff Meeting  | May 17        |
| Guest from USAID/W participating in Steering Committee meeting: Gretchen Bloom, Gender Advisor, ANE Bureau                    | May 30        |
| Discussion of the draft Democratic Local Governance report by the <i>Tuesday Group</i> (weekly meeting of democracy officers) | June 13       |
| ▶ Update at Senior Staff Meeting  | July 12       |
| Review of draft Core Report by various USAID/W staff  | July<br>14-18 |

Continued

**TABLE 7.****LIST OF BRIEFINGS/CONSULTATIONS  
WITH USAID FIELD PERSONNEL**

- |   |         |
|---|---------|
| ▶ Meeting with John Wesley, Mission Director, USAID/Egypt   | May 1   |
| ▶ Guest from the field participating in Steering Committee meeting: Marilyn Zak, Mission Director, USAID/Dominican Republic   | May 9   |
| ▶ Guest from the field participating in Steering Committee meeting: George Wachtenheim, Mission Director, USAID/Peru  | May 16  |
| ▶ Meeting with Field Coordinator of the Greater Horn of Africa Initiative   | May 17  |
| ▶ Guests from the field participating in Steering Committee meeting: Rick Machmer, Mission Director, USAID/Nepal and Jeanne Bourgault, Democracy Officer, USAID/Moscow  | May 23  |
| ▶ Guest from the field participating in Steering Committee meeting: Wilbur Thomas, former Mission Director, Guinea.   | May 30  |
| ▶ Meeting with Charles Corry, Program Officer and Lucie Simova, FSN Project Specialist/NGO work, in USAID/Prague  | June 5  |
| ▶ Briefing at conference for new Mission Directors/Deputy Mission Directors   | June 13 |
| ▶ Guests from the field participating in Steering Committee meeting: Robert Posner, Chief of the General Development Office, USAID/Prague and Joy Riggs-Perla, Associate Director of the Office of Human Resources and Development Cooperation, USAID/Egypt | June 13 |
| ▶ Briefing at <i>State of the Art Technical Training</i> (for approximately 40 HPN officers)  | June 15 |
| ▶ Guest from the field participating in Steering Committee meeting: Joel Schlesinger, Mission Director, USAID/Mali  | June 20 |

- ▶ Briefing to CDIE Summer Seminar participants June 26
  
- ▶ Guest from the field participating in Steering Committee meeting: Gordon West, Deputy Mission Director, USAID/Philippines June 27
  
- ▶ Guests from the field participating in Steering Committee meeting: Cap Dean, Mission Director, and Maria Beebe, Mission Social Scientist, USAID/ South Africa July 6
  
- ▶ Review of draft Core Report by various USAID missions: Bangladesh, Czech Republic, Dominican Republic, Egypt, Mali, Nepal, Niger, Peru, Philippines, Russia, South Africa July 14-18

ANNEX 4

## RECENT USAID MANAGEMENT REFORMS

- \* **Cost-Sharing:** In July 1994, USAID Policy Determination 16 was revised to eliminate the mandatory 25 percent cost-sharing contribution required to receive an operational program grant or specific support grant. Cost-sharing remains an important element of the USAID/PVO relationship, but will be applied on a flexible and case-specific basis. (Source: Cable 1994 State 184498 dated 7/11/94)
- \* **Implementation Approvals:** In August 1994, a number of changes were made to streamline required approvals under grants and cooperative agreements. These permit: approving recipients' overall financial systems and procurement, personnel and travel policies; clarifying that no USAID approvals are needed for salaries above a certain dollar level and for hiring individual consultants; limiting the number of "key personnel" approvals that can be included in a grant/cooperative agreement; clarifying that USAID's advance approval of international travel is not required; and including trip reports as part of regular progress reports, rather than separate submissions. (Source: USAID General Notice dated 8/8/94)
- \* **Customer Service Standards:** In August 1994, USAID developed and published its initial customer service standards for partners covering three areas: quality (improving processes and simplifying business practices); timeliness (improving turnaround time for USAID processes); and greater access and more transparency to Agency activities and information. Specific reform targets were included for each area. (Source: Phase I Customer Service Plan: Establishing Quality Service Standards for Working with USAID's Development Partners: Private Voluntary Organizations, Universities and Private Businesses, August 1994)
- \* **PVO Registration:** In January 1995, USAID issued streamlined requirements for U.S. PVO registration. The number of required documents was reduced from 18 to six for new applicants, and from six to three for annual registration renewals. (Source: PVC materials dated 1/24/95)
- \* **Administrative Requirements:** In February 1995, USAID-specific revisions to OMB Circular A-110 (administrative requirements for grants and cooperative agreements) became effective. Among the changes are: USAID staff cannot impose administrative requirements additional to those outlined in A-110; USAID may apply less restrictive requirements when making small awards (currently defined as less than \$25,000); specific guidance is provided on

appropriate use of grants and cooperative agreements; and progress and financial reports are no longer required on the same schedule (allowing progress reports to be submitted less frequently). (Sources: Federal Register dated 1/19/95 and M/OP/POL documents)

- \* **Country Strategic Plans**: In February 1995, USAID issued its Guidelines for Strategic Plans. A key part of these guidelines refers to the elaboration of country strategic plans and indicates that missions should develop their plans in coordination and active collaboration with their local counterparts, both governmental and nongovernmental. (Source: Guidelines for Strategic Plans, February 1995)

In addition, a number of other Agency reforms have been initiated:

- \* **"Reengineering"**: In November 1994, USAID completed its Operations Business Area Analysis report, which contains recommendations for restructuring the way USAID programs, implements, and evaluates its development assistance. The Agency's "reengineered" operating systems will be in place by October 1, 1995. Key aspects of the new operating system include: participatory planning with USAID's partners and customers; focusing on the achievement of activity objectives; empowering customers and partners, i.e. investing them with authority to make and implement decisions, as well as holding them accountable for those decisions; and using interagency teams to achieve agreed-to objectives or results. (Source: Operations Business Area Analysis Core Report, November 1994)
- \* **Principles for Award of Assistance Instruments**: At its January 1995 meeting, the Advisory Committee on Voluntary Foreign Aid approved a set of principles for the award of assistance instruments (grants and cooperative agreements) to PVOs and NGOs. These principles, which were developed in collaboration with USAID's Office of Procurement, were forwarded to the USAID Administrator for review and action. The principles include: achieving a higher degree of standardization of policy and procedure in assistance to PVOs/NGOs; selection of grant or cooperative agreement; clarification of "substantial involvement"; and focusing on activity results rather than inputs or outputs. (Source: ACVFA January 1995 Quarterly Report)
- \* **Audit Requirements**: USAID and the PVO community have been coordinating with OMB, and as of March 1995, the following changes to OMB Circular A-133 (audits) were anticipated but had not yet been published in final: USAID will determine when it is appropriate for A-133 audit requirements to apply to foreign award recipients; the threshold for requiring annual audits will be increased to \$300,000 per year; and two years of "clean" audit reports would result in less burdensome audits (e.g., testing of 25 percent of federal expenditures (rather than 50 or 100 percent). (Source: M/OP notice on the Internet, dated 11/13/94)

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In May 1994, USAID changed the audit threshold for non-U.S. NGOs functioning as direct recipients of USAID funding. Now, NGOs that receive less than \$100,000 per year per agreement in direct USAID funding (up to a total of \$250,000 per year) no longer are required to follow OMB Circular A-133 requirements for an annual organization-wide audit. (Source: USAID General Notice dated 5/6/94)

- \* **USAID/PVO Partnership:** A USAID working group completed a new Agency policy on USAID's partnership with U.S. PVOs which was approved in April and disseminated to USAID worldwide. Although the draft policy is primarily aimed at USAID's relationship with U.S. organizations, USAID's relationship with local NGOs is clarified on several points, including: the need for regular consultation with NGOs in establishing program priorities; working with NGOs as development partners on USAID program priorities; supporting the relationships of U.S. PVOs and local NGOs; and supporting institutional capacity building for NGOs, as well as for U.S. PVOs, as related to their work with local NGOs. (Source: USAID/PVO Partnership: Policy Guidance, April 1995)

**ANNEX 5****GUIDANCE ON CONSULTATION AND AVOIDANCE OF  
UNFAIR COMPETITIVE ADVANTAGE\*****A. USAID ENCOURAGES PARTICIPATION AND CONSULTATION**

USAID policies require and encourage wide participation by and consultation with other entities involved in development, both our partners and our customers--whether host country citizens, governments, NGOs, PVOs, for-profits, or other donor organizations. Discussions with individuals and organizations concerning basic strategies do not raise organizational conflict of interest issues. Nor is there an issue when discussions of specific developmental problems include specific possible activities for solving the problems. The following are examples of activities that are encouraged by current policies.

EXAMPLE 1: NGOs and others are invited to participate in a discussion of the New Partnerships Initiative ("NPI").

EXAMPLE 2: Mission staff holds a series of meetings with NGOs on how best to implement a USAID Mission's Strategic Objective on child survival.

EXAMPLE 3: Mission solicits written views from NGOs on potential activities that could be undertaken under a strategic objective.

**B. GUIDANCE ON EXTERNAL PARTICIPATION IN STRATEGIC PLANNING AND IMPLEMENTATION**

At the outset of preparing a new strategic plan, or amending an existing one, the mission forms an internal strategic planning team to manage the process. The mission then sponsors seminars and public meetings in the host country, and, working with USAID/W, also obtains input through meetings and consultations involving PVOs, NGOs and consulting firms. Based on this input and other information and analysis, the strategic planning team prepares the plan for USAID/W approval.

Once a plan is approved, the mission begins the implementation of the individual strategic objectives. For each objective, a strategic objective (S.O.) team is established with the responsibility for managing to achieve that objective.

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\* This draft document has been substantially revised since its initial distribution at the June 21 meeting of the Advisory Committee on Voluntary Foreign Aid (ACVFA), and will serve as the basis for further consultation with our development partners.



Initially, the S.O. team includes mission staff relevant to implementing the objective, and this internal group forms the core S.O. team. It is then the responsibility of that core team to identify external S.O. team members from counterpart host-country government agencies, the private sector, PVOs/NGOs, customer representatives, and/or other donors. External S.O. team member selection is based on a number of criteria: local knowledge, specialized skills, relevant experience, role in achieving the strategic objective, etc. Members may represent existing contractors or grantees, potential contractors or grantees, organizations which have no existing or expected contractual relationship with USAID, host country participants, etc.

Members will be expected to discuss all aspects of whatever is needed to achieve the objective. This may include ideas about new activities and progress of existing activities, as well as review of overall progress in meeting the objective. With the possible exception of host country counterpart organizations, external S.O. team members play no role in writing specific statements of work for activities. However, they may serve on technical evaluation panels for contracts and agreements if not barred because of personal or institutional associations with grantees or contractors competing for award under the specific activity. Given this structure, it is likely that unsolicited proposals from S.O. team members will not be entertained by USAID because of their position on the team and the resulting advance knowledge they will have about possible activities.

### **C. ADDITIONAL GUIDANCE ON PARTICIPATION AND ADDRESSING CONFLICT OF INTEREST CONCERNS**

The following guidelines will help to avoid problems:

**1. CONSULT EARLY AND INDEPENDENTLY ASSESS.** One of the ways to mitigate any issue of unfair competitive advantage is for USAID to demonstrate that the information or advice provided by potential grantees and contractors has been independently considered by USAID in coming to a decision. In order for that to happen the information or views provided by potential bidders must be received early in the process so that USAID can consider it fully and carefully and demonstrate that it made an independent decision.

**2. DOCUMENT S.O. TEAM DISCUSSIONS ABOUT PROPOSED ACTIVITIES.** It should be noted that technically the involvement of more than one organization in the development of an activity exempts those organizations from the requirement that they be precluded from competing for a related procurement action. However, other organizations not part of the S.O. team can still claim that an unfair competitive advantage was gained, and effective mitigation may be difficult when involvement has been in the form of oral discussions. Documented discussions allow the mission to demonstrate independent action.

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**3. PUBLICIZE AS WIDELY AS PRACTICABLE.** Present general briefings to a wide audience of potential partners and customers, and systematically obtain feedback through such public fora.

**4. MAKE INFORMATION ON SPECIFIC COMPETITIONS AVAILABLE** to ALL potential implementers as early as possible in the process. One of the principal ways to avoid accusations of unfair competitive advantage is to make sure that information is available to all, in a timely manner, and well before the procurement process begins.

#### **D. THE FEDERAL ADVISORY COMMITTEE ACT**

The Federal Advisory Committee Act (FACA) does not apply to all advisory committees. It does not apply to committees which are established overseas and include non-U.S. citizens. Another exception is where the agency is seeking the views of individuals, as opposed to consensus advice or recommendations. There is no exception for one-time meetings. However with respect to U.S.-based advisory committees, FACA and regulations require that certain "advisory committees" be chartered, approved by OMB and GSA, give notice of meetings and comply with other procedural requirements. An "advisory committee" under FACA is any group not composed entirely of full-time Federal employees.

The following guidance is provided on the use of advisory committees:

**EXAMPLE 1:** In country X, a mission has a series of meetings with a group to seek consensus on a strategic objective. The group includes non-U.S. citizens as members, e.g. host government officials or representatives of local NGOs. FACA does not apply even if at some of the meetings only U.S. citizens are in attendance.

**EXAMPLE 2:** In USAID/W, the G bureau establishes a group consisting of ten USAID employees and one outside technical advisor to advise the bureau on implementation of a population research project. FACA applies unless the bureau makes it clear in the terms of reference establishing the group that only individual views are being sought.

**EXAMPLE 3:** In USAID/W, the G bureau is preparing a strategic plan in a specific area. As part of the effort to include partners and customers in the planning process, USAID staff can host meetings to solicit individual views of customers and partners. USAID staff makes final decisions about the definition of the objective. Once the objective is approved, the G bureau establishes an S.O. team initially consisting of a core group of USAID employees. As contracts and grants are negotiated, representatives of the relevant organizations, based on the terms of the contracts and grants, will

participate as external members of the S.O. team. However, external S.O. team members will play no role in writing specific statements of work for planned activities.

Note: It is recommended that we seek a waiver of FACA, in our status as a reinvention lab Agency, to permit team operations in USAID/W as we expect them to operate overseas, i.e., to allow individuals from organizations with which we do not have contractual arrangements to participate on S.O. teams.

EXAMPLE 4: The Office of Procurement holds a series of "town meetings" with USAID contractors to get their views on a variety of procurement issues. The meetings are publicly announced well in advance, and anyone may attend and speak. FACA does not apply because consensus advice is not being sought.

## **E. AVOIDING OR MITIGATING ISSUES OF UNFAIR COMPETITIVE ADVANTAGE.**

**1. AVOIDING CONFLICTS OF INTEREST.** While the Agency encourages the broadest possible participation appropriate to a particular situation, some actions require caution in order to ensure a basic standard of fairness. The concern is to balance the need to make maximum use of the development knowledge, experience, and skills possessed by customers and partners in order to achieve development results and meet U.S. foreign assistance objectives, while ensuring that no potential implementers of USAID programs gain an unfair advantage as a result of engaging in consultation. It is in connection with the design of specific activities that conflicts occur, whether it is a case of an organization's looking out for its own interests and designing towards its own strengths, or obtaining privileged information. The USAID rules are very strict on precluding potential contractors who have had substantive involvement in design work for a specific activity from the implementation of that activity. Even providing material that leads directly and predictably to a work statement is grounds for being precluded from competing. Only very preliminary and general design work not foreseeable connected to particular activities is permissible. Even though involving more than one organization can help to eliminate these potential conflicts, there is still the possibility that a potential contractor will protest that the consultations were unfair in some respect, especially when mitigation is difficult because contractor involvement has been in the form of oral discussions only. Consultation with potential contractors regarding the content of the Scope of Work for a specific activity should be avoided to minimize any complaints of conflicts and the Contracting Officer should be consulted before any consultation at the design stage for a specific activity takes place.

**EXAMPLE:** Mission S.O. Team members are about to begin writing a Scope of Work for a contract and would like to meet with a number of NGOs, customers and others. After consulting with the Contracting Officer, the team decides that: (i) oral discussion will be held only with end-users and others who will not be bidding; and (ii) potential bidders will be consulted only on specific issues and only in writing.

**2. PROCUREMENT INTEGRITY.** Procurement integrity legislation imposes limitations on actions that may be undertaken during the course of a procurement. From the time an identifiable action is taken to start a procurement (such as drafting a statement of work) until the contract is awarded or a work order is finalized, proprietary and source selection information (as described in the Federal Acquisition Regulation 3.104-4) may not be released without the approval of the Contracting Officer. Moreover, Agency officials involved with that procurement may not, among other things, speak with potential contractors about business or employment opportunities without approval of the GC Ethics Counsel.

**3. ORGANIZATIONAL CONFLICTS OF INTEREST.** Policies on organizational conflict of interest are set out in the Federal Acquisition Regulation, Subpart 9.5 and in Contract Information Bulletin (CIB) 94-2 and its Supplement. The pertinent provisions are discussed briefly here. If an organization designs an activity or develops material that leads **directly and predictably** to a statement of work for a contract (regardless of whether the work is done under a contract or assistance instrument), that organization may not, with a few limited exceptions, compete for the implementation contract,<sup>1</sup> either as a prime or sub-contractor. Organizations may conduct underlying studies or assessments that are used by USAID in developing a proposed activity without being automatically precluded from participation in the implementation phase by virtue of having done so. A contracting officer is also required to determine whether potential conflicts of interest exist at the time of the implementation procurement and to take appropriate actions to mitigate any conflicts that are found. An organization that has done predesign work might, therefore, still be found to have a potential conflict that must be mitigated at the time the implementation contract is being awarded.

We do not at this time have regulations covering organizational conflicts of interest under assistance agreements; however, the issue needs to be considered when Requests for Applications (RFAs) are issued for competitive assistance awards. If an activity that has been designed by one recipient under a USAID assistance agreement will be implemented through another assistance agreement

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<sup>1</sup> The exceptions are: 1) when implementation is competed with the design and 2) when more than one organization works independently on the design (i.e., not in a prime-sub contractor relationship or in a consortium). However, each case needs to be looked at independently. Doubling up on designers does not necessarily mitigate the conflict.

rather than a contract, it will be necessary for the Agreement Officer (Contract Officer) and the Technical Officer to decide whether a non-competitive award to the design organization is appropriate and justifiable. If the implementation award will be competed, it will be necessary for the Agreement Officer to determine whether any actions should be taken to mitigate the potentially unfair advantage of the design organization. If more than one recipient organization works on development of an activity for which USAID then issues an RFA, the design organizations would not be precluded from competing, nor would the Agreement Officer need to mitigate any unfair advantage beyond assuring that pertinent information is made available to interested organizations.

**4. RESOLVING PROBLEMS ARISING FROM CONFLICTS OF INTEREST & UNFAIR COMPETITIVE ADVANTAGE.** "Throwing out" a potential bidder or recipient from bidding is not the only way to resolve an unfair competitive advantage. There are many other ways to both avoid the creation of an unfair advantage and mitigate one once it exists without having to resort to the most drastic option of precluding someone from competing. In certain circumstances, however, preclusion from competition is the only option unless a waiver is authorized (see CIB 94-2).

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