

Summary Report

Strategic Thinking in USAID: Shaping Our Future

February 10th and 11th, 2003
The International Gateway Room, Mezzanine Level, Ronald Reagan International Trade Center
Organized for PPC by the IRIS Center at the University of Maryland

Strategic Partners:

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Day One: 02/10/03

8:30 a.m. - 9:00 a.m. *Registration*

9:00 a.m. - 10:15 a.m. *Plenary, Session 1: Strategic Thinking in USAID: Asking the Right Questions*

Jon Breslar--Moderator: Welcome. Objective, process and results of the seminar.

Why are we here? Because we're at a crossroads for foreign assistance policy. It is time to take a serious look at USAID and foreign assistance given all that is changing

MCA

Monterrey consensus

Legislation for MCA

NSS—development and diplomacy as a new paradigm

Natsios report—addressing development during the last five decades

Crosscutting issues—private sector, muslim world,

Immediate horizon issues—joint State-AID strategic planning and cooperation

FAA overhaul may be attempted

These are all far reaching opportunities for USAID.

USAID has done a lot of thinking about each of these areas; now is the time to look at all of them together:

What does it mean?

How can USAID deal with this?

What are the key implications for USAID?

How do these pieces fit together?

What strategic priorities flow from this?

What USAID reforms are needed?

How can USAID best organize itself to address these new circumstances?

Patrick Cronin: The overall Strategic Framework: NSS, MCA, FAA

There is a broad and a narrow strategy, which is to say that US foreign assistance is beyond USAID as an entity. But some of foreign assistance is within USAID. How can we make the part within USAID more coherent?

Vision or overall strategy: Relates USAID's ends to its means and determines ways USAID will execute—use its means to gain its ends. USAID needs to become more strategic—to develop a more strategic approach.

What key influences are impacting on USAID?

1. Sustainable development: Pre 9/11 at the beginning of the Bush administration attention was given to attaining more effective sustainable development. This emphasized country selection as in where can the MCA be targeted? The Monterrey consensus will be at the center of USAID activity in foreign assistance. That is, USAID will incorporate the MCA and its principles into its work as, for example, in preparing pre-MCA countries (especially the “near misses”) to attain MCA status. It will have a role in creation of the MCA corporation too.
2. War on terrorism: The 9/11 crisis shaped the USG view of the role of foreign assistance. Prosecuting a successful war on terrorism became a key objective of foreign policy and foreign assistance a central means to help achieve it. There is too a nexus with rogue states such as Iraq in that foreign assistance can support others in their war on terrorism or for their help in supporting the US war on terrorism—e.g., money laundering, drugs, budget support. There will be more of this as in Turkey at present. USAID will be a part of these efforts even if not directly involved in the hot wars on terrorism or in Iraq.
3. Failing and Failed states: USAID will be the principal actor addressing failed and crisis or war torn states—Afghanistan, post-war Iraq. USAID will also address failing states, those where existing institutions are not operating well and important negative trends are widespread. In Islamic countries, for example, USAID will promote a balance of stability and appropriate economic, social, political reforms. For example, from Jackson Diehl in the Washington Post on 01/10/03, can Egypt be influenced to provide more political space?
4. HIV/AIDS: Although a “coordinator” mechanism will be used to address the USG response to this big issue area, USAID will play a major role in helping stem

this pandemic and in addressing other health issues. This is consistent with US humanitarian values.

5. Humanitarian assistance: This is another important theatre of operation for USAID.

What means/resources does USAID have to focus on these influences?

ODA is dwarfed by private sources. Can USAID help create an environment to attract FDI? Probably not easy or even possible in many places give USAID's own official development assistance means. So, we have to mobilize other resources. Our own means are also growing, moving from \$7.8B last year to \$19B in 2008. These are big ODA increases! The USG is putting big money into foreign/development assistance:

\$15B HIV in five years

\$20B MCA in five years

Many \$billion to terrorism reduction activity (beyond ODA)

Many \$billion to famine and humanitarian needs

Many \$billion to rebuilding conflict countries

Many \$billion to Islam is a possibility

In this context of growing ODA and big private flows we need clear objectives for the US and USAID. How can we clarify this picture? How can we keep USAID from being a big holiday tree? USAID needs fewer objectives,, need to define itself with a strategy that cuts through the many lesser items on the agenda.

One challenge: Many different USG entities are involved in foreign assistance and it is hard to coordinate them. MCA, MEPI, Iraq Coordinator, Afghan Coordinator, HIV coordinator, for example, introduce other layers. So, how can USAID help make this work?

How can USAID deliver assistance? Be creative. Emphasize delivery mechanisms. Do not wed USAID to any one delivery mechanism even though other donors may do this. Realize it's OK to work through other donors, USG entities and partners—Japanese, DOD, etc. The broad objectives/strategy in foreign assistance and the big growth in foreign assistance funding requires flexibility on the part of USAID and others.

Country ownership is important. USAID brings good contact on the ground in the countries it helps. This is special, but it doesn't bring the knowledge into Washington DC policy makers very well. Field people also tend to be out of the policy or change loop. USAID should help USG policy makers understand and accept the "country" view that it can provide as part of the policy decision making process. How can USAID ensure this?

Implementation: How can USAID get measurable results? It is criticized because it measures but it does not get results. Monitoring and evaluation is the key. This, for

example, is at the center of the MCA. This emphasis on M&E creates an opportunity for USAID to convince skeptics that foreign aid works, on the Hill and in the public. USAID must show from MCA and conflict situations that it can work. But, how do we measure this? USAID has created a situation room to gather and distill information about this—to show how it's achieving results. Must show this for areas of significant initiative. M&E is critical to MCA, and the MCA legislation will likely embody some of it. What will be the role of USAID in this?

Will this lead to a rewrite of the FAA? Probably not. But MCA may need new authority. And, there will be a discussion of the State/AID relationship and State and USAID will work closely no matter what happens. Foreign aid will, must support US foreign policy interests!

USAID can work to make the Development Policy Coordinating Committee more effective.

In summary: Vision, five items to consider. Implementation, six challenges to consider. It is time to define our core work more sharply.

Discussion

Question: USAID will be asked to program dollars to support allies non-developmentally, in the war on terrorism, such as we once did in Zaire. USAID can do a lot of good, but it's not a good use of "development" funds. What can USAID do productively in these places? We give them too much money, their governance is weak and our attention is ephemeral. We may have big \$\$ for a couple of years, then it goes way down.

US says it will reform countries "totally." This will fail and is also hard to measure. Maybe we can pick out a sector and work on it only, but not reform the entire country.

USAID needs to remember its friends. Otherwise we will categorize them out of our programs and lose our long term allies.

MCA will focus on the more effective. Sustainable development will be USAID's watchword in the next group (down) of countries. USAID will emphasize more effective economic growth for them.

It's a complex world. Trying to apply the same basic strategy for all countries will not work in such a world. USAID needs to distinguish our approach based on this "context" and get USG agencies and other donors to see this the same way USAID does. USAID basically says it's always going to develop everyone and that will not happen.

There will be MCA countries (that USAID does not have) and pre-MCA countries that USAID will help more. How will USAID's program change?

Question: Graduation of countries (from MCA) is an issue. How will we do it properly? Probably USAID should focus on manageable areas for success. USAID will get out of some countries. Where will we go?

An important area is how we give assistance, the modality. USAID sometimes gives large \$\$ for short periods. This cannot lead to sustainable development. Putting these funds into foundations, local currency accounts, private sector lending provides a longer time frame for the big money to be used and may lead to more sustainable development/

Strategic coherence for USAID itself isn't possible unless a broad interagency viewpoint and strategy is developed first. The USG doesn't have the political will or leadership to do this and USAID doesn't have the authority to do this. Also need some intellectual coherence.

Coordination among agencies, as USAID with State, is an issue for all USG agencies. Some agencies excel at big picture thinking in certain areas, such as State with S&T work. USAID needs to get out of its insular box and give these other organizations more ideas. It also should work more productively with other partners, especially the EU—amalgamate with them.

USAID faces competing challenges and has many outside critics. The holiday tree syndrome is a problem and USAID should reduce its program areas. A compelling vision is needed and will drive this selection process. Jim Colby, for example, says USAID does everything. Need to focus on economic growth and governance. Countries have different needs in these areas, so USAID would identify what to do in each place and type of situation. It would be more effective, would have a stronger hand inside the USG. Its work would add up to “more” by this approach.

Cannot restrict USAID's portfolio so sharply. Countries want things and USAID helps them. USAID will have to identify what it can do (considering a broad range of sectors) and then not do more, a different way to accomplish a reduction in activities.

Coherence is our principal problem. In DFID this coherence is a specific label: Poverty Reduction. Everything fits under this rubric. USAID needs to make this coherence crystal clear within itself and tell a good story about the impact of USAID \$\$ that illustrates it. USAID must also address this coherence in part as a communication and perception problem.

There are different groups of countries—failed states, Middle income countries, MCA countries. No document is yet available to address this new categorization fully. These countries have different circumstances so there must be different modalities via which aid is delivered. MCA is one class of country. Need to change the delivery mechanism for that class of countries to match their needs and what works. MCA emphasizes contract with the country, proposals by the country, etc. These different approaches will also partly determine who gets the ODA in each country. This is a situation in which country

selection, the modality of aid delivery and M&E are all important. And, all these are linked.

Question: What does USAID do best? Worst? Need some evidence as to USAID's performance. M&E is important in this effort and then must communicate the results discovered.

USAID has a huge problem, that of the perception of USAID by others in the USG. This includes USAID being defensive, protecting its turf, without ideas, and lacking in strategy. USAID cannot say, "Here's what you/we should do." USAID needs to realize that the "first piece of paper" in a bureaucracy controls things to a large degree. It should make a bigger, more concerted effort, to "step out."

Question: What interagency coordination mechanisms exist? Are they any good?

MCA is defacto coordinated by the Development Policy Coordinating Committee. Others are governed by events and by Presidential initiatives—World Summit on Sustainable Development gets 30 agencies around the table on issues of famine and humanitarian concerns. USAID has a key role in most post conflict situations. But, it's also inchoate. In the case of HIV, State was the broker but HHS and CDC took much of the coordination role. There will be a State coordinator though, perhaps with some White House credentials too.

State's view is "get a coordinator." That is always how it views these big issues.

There are three types of coordination in the USG: People who control money, people who control countries, people who control issues. Implementation actually cuts across all these.

Question: Official ODA is a small part of the input. Is there a mechanism to see the overall impact of all the inputs by country?

AID keeps its funding going into places as best it can. And, it can change the enabling environment to attract foreign direct investment, for example.

High end players in the public and private sectors may be able to help address this. Oil company people in Nigeria, for example, could sit with the public sector to address key problems. It might help stave off complete state failure if this was done.

Interagency concentration has been given to similar issues, such as how to root out corruption. GDA also leads to this.

If economics, trade and governance reflect its core values, USAID doesn't do a good job with them. It doesn't talk about them, doesn't lead in addressing them. Others such as EXIM, OPIC work on this, but USAID has ceded its place here, including participation in the trade promotion committee that it helped set up.

10:15 a.m. - 10:30 a.m. *Break*

10:30 a.m. - 12:15 p.m. *Plenary, Session 2: Strategic Thinking in USAID: New Sources of Influence*

Barbara Turner: Natsios Report

The Natsios report focuses on key things that were changing:

Governance: The importance of governance pervades this report. The emphasis is on the establishment of proper institutions—rules of the game

- Not elections but what you do afterward. Transparency, rule of law, etc.
- Creating institutions for economic growth is really important. Have to get economic growth.
- Have to reform health institutions, use M&E and create systems to respond effectively to chronic problems
- Conflict issues are about governance
- Humanitarian issues are about governance

Failed States

- Failed states are about governance
- Failed states may spawn security threats for the US and others. USAID must deal with these states effectively

Finance: This is a whole new world now

- ODA is a small part of foreign assistance and getting smaller
- Business leaders should speak out on issues
- USAID should harness some of the money going into countries from the private sector; how can these flows be linked to official ODA? How can ODA complement them?
- Remittances are a very large part of the globalization picture now.

Agriculture:

- Funding trend for agriculture is away/down
- USAID needs to work in policy, marketing and related institutional issues

Health:

- Must deal with simple disease, chronic disease
- Should deal with institutional aspects of health.
- Failed states are important here

Natsios report is either normative (what USAID should do) or descriptive (what USAID has been doing). The key question is how USAID will change what it does. The report says that if good governance doesn't exist nothing will happen. If good governance does exist we will or ought to try to get economic growth. When we have good governance sufficient to get economic growth, we need to use USAID's resources to help mobilize outside resources. Doing this will get better results.

James Clad: Muslim World

There are three broad ideas in the concept of engaging Islam:

- Work with Islamic societies productively as a specific counterweight to virulent extremism and terrorism. This is a key objective of foreign assistance.
- Work with a positive vision of the Muslim world, to help the good forces address the clash within that world. This is a credibility question: Does the US have a positive vision of the Islamic world whereby we are helping good Muslim forces address a clash within the Muslim world? Or, are we addressing a clash between our civilization and that of Islam?
- Work to create more effective free institutions within the Islamic world. This is the reform issue.

This effort should not be stamped as a US effort; perhaps it can be carried out by other donors and groups. Muslims who want to work with us cannot if the US is too obvious about its involvement. This tends to shut down political space for our friends.

USAID knows this. There are many ways a productive effort can be made to address mutually agreed key issues—through other donors, the Arab charter and so forth. The Arab Human Development Report illustrates acknowledgement of the issues too. Justice and freedom, political space and inadequate civil society are acknowledged. The knowledge deficit is too, as is the weak opportunity in many Muslim societies for jobs, trade, and education for jobs. Creating effective freer institutions in these areas helps with this.

There are issues in this area of engaging Islam:

Coordination: Political coordination is necessary and a coordinator mechanism is likely
Balance of reform and stability: Key, because if you don't see evolution, you may see revolution.

Resources: Now the \$\$ is mostly from reprogramming—e.g., ESF for Egypt was reprogrammed for MEPI, \$29m. \$145m is in the 2004 request and approved by OMB. There is discussion of doing more than reprogramming—e.g., like a new NIS account or an MCA for the Muslim world.

Legal and practical: Major legal impediments exist in this area—the USG working essentially with a religious issue. A big practical issue also exists—that there are few

who are attempting reform on the ground in Muslim countries; civil society is very thin. And, people working with Islamic charities have recently been brought up on terrorism charges which has a chilling effect on the use of this group of institutions.

USAID has provided an inventory of its successful program in the Muslim world to other USG entities. The NSC asked: What of this inventory should we do more of? Less of? The impact of specific activities was queried: For example, was there evidence that the Mali community school program actually served as an effective alternative to the madrasses? USAID could find no evidence of this because the evaluative work done did not address this project impact. The time frame for an Islamic initiative runs the gamut, but some of the desired impact is very short term—within three months.

John Simon: The Monterrey consensus/MCA

Monterrey and the MCA: The principles in these serve as a kind of baseline and core fundamental. These principles are:

Aid works only where an appropriate policy and institutional environment exists
Aid works best where these conditions exist in needy countries
Development is primarily the responsibility of each developing country itself
AID should only go where an appropriate enabling environment exists

A NBER study showed that corrupt government historically have not received less aid than good governments. Aid was not targeted to where it would do the most good. See also Wm. Easterly's book, *Elusive Quest for Growth*. These principles have broad diplomatic support.

There are counter arguments as from Elliott Berg. While a good environment is preferred, it may be difficult to determine if that situation exists and what will work to create or improve it. Money, being fungible, can create a bad environment—i.e., lots of aid \$\$ may increase corruption, not decrease it.

What criteria measure aid effectiveness? CPIA at the World Bank is one. It has no scores however, Can also benchmark countries against a regional standard, but this is a soft criterion approach. DFID seems to be aiding countries it "thinks" are showing good form, a quite subjective measure.

USG took an approach of setting up transparent criteria that outsiders could use. Basic construct: Ruling justly, economic freedom and investing in people. For ruling justly, it used Freedom House index and other measures of political and civil rights. For economic freedom it used macro (inflation, budget balances, credit measures) and micro (ease of starting a business, trade environment, business environment) as measures. Investing in people involved education and health, looking at inputs (what is the country putting into the sector) and outputs (what is the country getting out of the sector).

Summary: The big question in all this is "Where does USAID go from here?"

So, what does USAID do about getting other countries ready?

MCA is undoubtedly going to change the USAID program. USAID can work with the next tranche of countries—the near misses—to get them into the MCA. These countries need a different approach to get into MCA. Some countries, though, will lose resources because of this process.

Introduction of MCA was an absolute defining moment for USAID. If USAID thinks five years ahead what does it see? The President didn't want MCA in USAID. USAID must re-think its role for this five year period. It must create a vision—MCA, just out of MCA (near misses), failed states.

So, what will USAID not do? Natsios report is weak, it says nothing new about what foreign assistance can do to solve the problems before USAID. Or, what can USAID do? For example, does foreign assistance really create democracy and governance? Where can it be effective? MCA is the very low hanging fruit. What is USAID's strategy for addressing the rest, the more difficult fruit to get? If USAID cannot create and implement this strategy, it will be or is irrelevant.

MCA countries are well off; they get a large amount of money for a short time. Do they then graduate? How and when?

MCA graduation is not for USAID to decide. MCA addresses countries with \$500 per capita income, but goes up to \$3000 per capita. Not a rapid graduation. But, aid is said to work best in countries where there are lots of poor.

Re: the Muslim world. There seems to be an assumption that the clash within civilization is about modernization. Is there a base for modernization in these countries?

Arab Human Development Report suggests a constituency in the Muslim world. If you look at countries where a middle class emerged, the incomes were increased by government programs and not just from agriculture. There are big constituencies for reform.

Tish Butler: RDA

The Revolution in Development Assistance activity was requested to determine in part what to do to address the challenges posed by changes in the way foreign assistance would be allocated and provided. It's been an iterative dialogue with respect to aid with a small "a" along the lines of: What has worked in aid and what has not? What challenges does aid face? What can be documented about aid effectiveness? From this discussion USAID will shape its strategy, program and institutional reforms.

Principles involved in RDA:

- Align money with discrete objectives. DA failed because the objectives were unclear, overlapping. The idea here is for Congress to provide funding for the right development objectives and USAID will be accountable for achieving them
- Define categories of objectives for DA in country and categorize investment for those categories, e.g.,
 - Sustainable development
 - Restoration and stabilization
 - Global and transnational objectives
 - Other objectives
- Partnership and local capacity—country ownership and development
 - define investment
 - define mechanisms for investment
 - focus on local capacity and institutional development that is the essence of governance
- Performance based measurement
 - select countries
 - select investors
 - program future resources

Lessons learned: There are no sectoral priorities yet.

It is time to bring RDA to a wider circle because it will help tell the story of how USAID is responding to the Natsios report, will illustrate how USAID is adapting to the MCA, will inform State in the strategic planning process, and will shape discussion of any legislative changes, including an FAA rewrite if it occurs.

RDA process raises some issues. First, USAID needs to be in dialogue with the Hill. Second, it is important to determine what concrete issues RDA should focus on. Finally, whether RDA will be one document with many parts or a series of presentation documents needs to be decided.

Dan Runde: Private Financial Flows (Chapter 6 of the Natsios Report)

FDI is sensitive, capital is lumpy and a “coward” because it only goes where things are just right for it.

What are the program implications of the big private resource flows occurring?

They help create a good development environment. For example, transaction costs can be reduced for remittances, remittance transactions can be “bankerized”, trust can be built up for good remitters. Net capital markets may be improved, US and other foundations can deepen their work in countries, and local foundations and local giving may be strengthened.

USAID needs to change the way it does business. It moves on to a deal making role, a convening role, a catalytic role. This is time intensive though and may require more \$\$ than initially thought. USAID, in thinking of the implications needs to determine where the private sector is going. It must pool its money with others more often. It may need to ask for legislation, e.g., to create endowments. The GDA secretariat is doing a lot of this now. It takes time.

This defining moment for USAID: What do we do about it?

Perhaps think as follows:

1st world: MCA. It will focus on productivity drivers in selected (MCA) countries. Will give \$\$ to address key impediments still remaining. USAID will implement some of these programs for MCA—business plans, business contracts. USAID will be likely to work in one or two key areas in MCA countries, not all areas.

2nd world: Prospective MCA countries from near misses for MCA all the way down to those coming out of failed state status. Here USAID would do the following:

Short term—work with the near misses to get them into MCA

Long term—work with countries below the near miss countries to move them toward MCA. Also stop working with some countries who are not able to focus or create a political environment supportive of effective help.

3rd world: Failed states: humanitarian concerns, conflict situations, famine problems, etc. These states can move up to the second world; some second world states will move down to the third world.

Will MCA countries free up USAID money programmed for them now? Not clear. MCA board will consider this. An overlap with the MCA and USAID business plans may keep USAID \$\$ there. Or it may free up some of USAID's current \$\$. This immediate period for MCA is transitional and it will be hard to get it into place operationally. It is likely there will be more continuity of USAID programs in MCA countries initially, but the movement is likely to be toward more separation between USAID and MCA programs in MCA countries.

12:15 p.m.

Lunch

1:00 p.m. – 2:30 p.m.

Plenary, Session 2: Strategic Thinking in USAID: New Sources of Influence (continued)

Edward Fox, AA/LPA: The Politics of Foreign Assistance in the 21st Century

USAID must factor in the politics of issues to be effective. How did USAID get to where it is? How can USAID move forward? What direction should it move in?

The cold war created foreign assistance as a tool of the USG. The objective of foreign assistance was not to develop countries per se. There were many objectives and foreign assistance was a useful tool to address outside USG interests.

Foreign assistance is still viewed as a tool; not as an object to develop the rest of the world. After 9/11, development became an integral part of our foreign policy interests.

It is still special interest politics that drives foreign assistance. Farmers. Politicians like military bases in their districts. Development is not the same. USAID will always face humanitarian and political needs in the foreign aid area.

From a politician's viewpoint, the FAA does things that protect them or benefit them (serves their political audiences). Congress set up the Child Survival and Health account to protect themselves from criticism for causing people to die when they cut foreign aid. There is no foreign assistance plan, just pure interest group politics. USAID has not done a good job of developing its constituency on the Hill. Need to do it better. MCA has created clear ideas about development—what works, etc. USAID didn't create these good intellectual arguments about development. MCA creates big questions about the 2/3 of aid still in USAID's portfolio—can USAID handle that? Need very much to address this issue. It is very hard to compare what USAID is doing with what MCA is doing. MCA is the easy part.

Natsios has said: Important role for USAID is to help non-eligible MCA countries move in that direction. But must get Congress on board—that's where the \$\$ will be decided. MCA is a good idea: Flexibility is a central theme for Congress—how can you keep Congress from earmarking? This is a major change in the way Congress thinks.

Chairs of House and Senate appropriations are not into political aspects of aid as much as some. Are supportive of USAID.

FAA not rewritten in 15 years because no one wants to vote on foreign aid.

National Security Strategy has three legs: development, diplomacy and national security. USAID must now change its attitude. It must become relevant, move from its existing programs which are not respected to something else, or it will lose out.

Terrorism comes from failed states. USAID must figure out how to drain these swamps. The challenge is new. For 40 years USAID knew what the challenge was and it didn't have to justify what it did. Now there is an opportunity to focus on development, but public's image of what USAID was doing in the past is negative. Have to become relevant, reach out and take on critics. Get engaged, change image, get people to know what USAID does.

These are political realities: USAID's outyear budgets. If over five years USAID cannot become relevant it will be gone. It's a set of countries:

MCA is 10-20 countries

Middle countries

Near misses

Longer term countries

Countries where USAID stops working on economic growth

Can USAID get flexibility for development assistance funds to create this mission?

Congress

Constituency

Can we build an appropriate constituency for this?

Must show USAID work is justifiable on its face. Link what USAID does to people's lives, future, not on the financial benefits for US firms. Talk about this in terms that Congress and people understand:

Travelers are vectors for disease, can bring it to America: USAID will get out there and fix this disease

More trade with developing countries increases US markets: USAID will get out there and build trade capacity in those countries

Support for development education in USAID has increased lately. This takes a while but is a big opportunity to get USAID message positioned.

Also USAID is targeting and doing more with the business community in getting its message across.

New FAA? What likelihood in the Senate? What should USAID do? An authorization bill is likely. The goal of Lugar and GOP is to bring the Senate Foreign Relations Committee "back" to its prior strong position. Entire prior staff was let go; new staff lacks experience, especially for re-writing the FAA. Committee staff also has MCA to do. If not this year, then next year is an election year and FAA won't be done then. Iraq is a complication also. However, Lugar is likely to do something to be a player. He is not likely to leave all the action to appropriations only. Finally, FAA brings out a lot of rent seeking and many crazy ideas, not only USAID's good ideas. It's nearly a nightmare.

House International Relations Committee has made MCA a high priority.

War on terrorism is a failing/failed states issue. MCA deals with the cream of the crop. It has no constituency. Why is the Hill interested in MCA then? It will give them "success!" Over the long term, though, MCA will need to show tangible results. Europe reacted coolly to MCA initially. Presidential push is the key. Without Presidential interest it would not move. Business community is a constituent of MCA because it leads to good government, rule of law.

There is a case to be made that, in LAC and SE Asia, by 1990 business was doing better because of what USAID did. These countries are much more beneficial to the US

economy now because of this work. Also, the rise of democracy in LAC resulted in part from USAID's push in that direction in the 80's. Now we get big investment flows there.

Natsios uses the numbers: In 1960's, oda made up 80% of assistance; today the private sector makes up 80%.

Dr. David Gordon: Global Trends and Future Issues

There is renewed emphasis on foreign aid in foreign policy decision making today. This is driven by the security environment. 9/11 relief and reconstruction in Afghanistan, commitments to MCA, HIV, relief and reconstruction in Iraq. Foreign aid loans are large.

Intelligence today poses key questions. Foreign aid interests are at the crux of these questions. However, USAID is no longer at the heart of foreign aid in the minds of policy makers.

How to think about aid and development today is unresolved. Natsios report speaks of foreign aid in MCA terms. It also sees foreign aid as a way to address failed states.

Key trends and challenges—the strategic environment—are six:

- Stateless zones
- New world of proliferation
- Pivotal transitions
- Globalization
- Humanitarian needs
- Threats of instability

These themes are magnified by the centrality of the US in the world. The US is either the source of or solution to the problems of others.

Stateless zones:

There are areas of “no man's land” in beleaguered states. These are not necessarily in failed states. Just areas without much governance, areas where the central government holds little sway. These stateless zones are crux geographical points for terror and radical groups. There are 20 of these, about half already home to terrorist groups—Somalia, Algeria, Kashmir. The urban component of these areas is most important.

Proliferation:

This is the most dramatic change.

- More private nuclear brokers
- Weakness of consensus about proliferation

- New era of proliferation—feeds off other attributes

North Korea is an example. Uses its nuclear for political leverage to define a different relationship with the US. It must decide whether to keep these weapons or to bargain them away for strategic ends. Weapons are bargains, tools to deal with this include foreign aid, although it may or may not make sense to use this tool in the N. Korea situation.

Pivotal Transitions:

Foreign assistance is used to facilitate these transitions. Who is transitioning:

- friendly Muslim states facing radical Islam from within and without—Egypt and Jordan (both will become more important to USAID)
- Muslim countries trying to strengthen democracy—seeking an internal breakthrough to be a different kind of society (Turkey, where US may go bilateral; Indonesia, size, location, importance to our adversaries. Big foreign aid assistance coming. Iran, mixed but some positive developments)
- Countries going to great power status—Russia and China. In China HIV will drive a big relationship with the US; wants US help. Russia is not collaborating with US on HIV
- New alliances being driven by terrorism—Pakistan. Musharraf made deliberate decision to ally with US. He faces Islamic resistance. Kashmir attacks push India and Pakistan apart. Bilateral and trade issues are in play. Afghanistan. US is committed to rebuild. Will involve foreign aid there. \$1B spent there by US already. Central Asia. Location is central, also has significant energy resources. A tough neighborhood that will use foreign aid.

Globalization

Assessing disruptive potential of this trend.

China and India, doing OK

Other countries are not so far along and for them, stability and program is a problem

Arab World is involved in the traditional and modernist debate

LAC, rising populism is overwhelming the forces of globalization

Humanitarian needs

There is an unprecedented scale of need in the near term—North Korea, Iraq, Ivory Coast, etc.

Humanitarian dimension is a big asset to the US and USAID will benefit from this

HIV issue. It is increasing rapidly on the Eurasian land mass. See the recent CIA report.

Instability Threats

Subsaharan Africa, where there are big concerns about Nigeria, Ivory Coast, Zaire and Kenya (where expectations on the street are unreasonably high)

LAC, Colombia, Venezuela

Balkans, deteriorating, especially Bosnia

Security issues increasingly grab the attention of decision makers. How do these big issues affect them? They will look at foreign aid through this prism. Aid flexibility will be important because of this.

Stateless zones: Will set up a separate session to talk about this.

Globalization, instability, pivotal transitions. Note the World on Fire. How do these interact? Is globalization a problem or a solution?

It's both. Challenges of globalization are destabilizing to many states. But, only thing worse than being exploited by capitalists is not being exploited by them. Same for globalization. Aid resources will play a role in addressing this.

Root causes in conflicts. Water, timber, resources. These are significant accelerators of conflict. For example, in six or seven areas we may be reaching the tipping point on tension over water access.

Each of these six trends have a different impact on development objectives. How does USAID address these? What is a success? How does the USG address these?

Natsios report titled Foreign Assistance in the National Interest. Wood's report was Development in the National Interest. An interesting difference and a big shift. The foreign aid agenda is not any longer exclusively developmental. Definitions of success will differ--traditional, conflicts prevented, etc., but not a single set of indicators.

Camp David assistance program was politically driven—to keep the peace between Egypt and Israel. Not a development success, but the peace has been kept.

Confusion of objectives is a problem. How does USAID deal with the credibility question? Diversity of tasks is part of the real world. Can't avoid it. And development has a wide range of needs and requires a wide range of responses.

Don't need a big base of support for foreign assistance when national security is a problem.

What about programs for USAID? Military action and counter terrorism will lead foreign aid. What's after Iraq, for example?

Current situation is positive. During the cold war the US bought influence and propped up allies. Now foreign aid needs to work—building institutions, preventing conflict, creating a basis for economic growth. Want foreign aid to succeed now. There is a range of agendas but main criteria is to get results from aid, not just to get \$\$ to a dictator.

What are alternative approaches to USAID in order to do all this? We're skeptical as a country of multilateral approaches. MCA is small.

Competitors are out there. Good thing! Adhoc arrangements are possible. HIV \$\$.
What institutional arrangement will be made there? Same question for MCA?

David Eckerson: What is the Point of Departure for Our Future Vision?

Plan is technical to date. A kind of shotgun marriage, but not a bad plan.

Where are we now? Technical plan is being put forward for small group discussions.
What's lacking? Needs more vision. Where do we want to be in five years? Is this the theme we want? (see slide)

State-USAID plan is mostly driven by need to get State-USAID management together.
But how do we want to integrate the substance?

Strategic planning framework

- Counterterrorism
 - Homeland security
 - Regional stability
 - Weapons of mass destruction
 - International crimes and drugs
 - American citizens
 - Democracy and human rights
 - Economic prosperity and security
 - Social and environmental issues
 - Humanitarian response
 - Public diplomace
 - Management and organizational excellence
- State: Not a bad idea to have a joint plan for a five year period. So, what themes?
- o How execute the National Security Strategy?
 - New environment—linkage between foreign policy and development assistance
 - New paradigms in accountability, MEPI, MCA

Guidance from State management was: If you have 20 priorities you have none. So, figure out where we're going. Get few priorities.

State: So, what do we do? Perceptions. Draft the plan and now talk about it together and make it a vehicle to articulate our message. Finish it in early June.

Will incorporate results from workshop into the strategic plan. E.g., what do we do with or in failed states? Vision: From this strategic plan both State and USAID will do annual performance plans. USAID's plan is 237 pp long this year. Sent to and read by many.

Strategic plan is a framework. This workshop is to go more deeply into general goals, to give USAID clearer priorities and to decide what USAID should do differently. Ideas here are bigger than what are now in the strategic plan. Need to determine what the relationship is between the past, present and future. Strategic plan is still static. This workshop is to call into question how USAID does business. How USAID is organized. How USAID operates.

The Natsios report is not a strategic plan; it doesn't address issues over 10 years. So what is USAID's relationship to our national interests? What pieces are to be taken from the Natsios report and how are they related to our strategy? How will USAID execute them?

Strategic vision. This is needed to make USAID understandable to others. Operational plan. How is USAID to be transformed in the context of the vision? USAID needs to compel a new constituency, to attract people.

The RDA does this. A high level statement of direction is needed. People are looking at this strategically. Need to break out of strategy to vision.

RDA has many budget tracks. How is USAID to bring these together? There is full engagement on the USAID framework with State Dept. After that USAID should define its core policy and determine how much of that is covered by RDA. If RDA is issued soon, the strategy can be implemented in the RDA framework.

2.30 p.m. - 5:00 p.m.

Breakout, Session 3: What are the Strategic Implications for USAID?

Four working groups: (with leaders)

Breakout Group A: Monterrey Consensus, MCA and National Security Strategy (NSS), Strategic Thinking in USAID, Feb 10, 2003

Facilitator: Dennis

Recorder: Andrea

Participants:

1. Steve Radelet (10 minutes)
2. Jock Conly
3. John Grayzel
4. Karen Harbert
5. Linda Morse
6. John Wilson
7. Polly Byers
8. James Clad
9. Dennis Wood

List 4 of the **most important ideas with strategic implications for USAID** arising from the: *Monterrey Consensus/MCA & National Security Strategy*

DENNIS: How does this strategy look at these just-missed countries? What is the strategy to address this?

STEVE Radelet: Tier 2 and failed states are progressively harder to deal with, they are less reliable partners and riskier investments.

- Need to define the partnership and accountability – this has implications on delivery mechanism/evaluation
- 2nd tier countries have great strategic significance – they require a different approach though. Ex. In the Caucasus you deal with energy and stability issues so you need another set of approaches.

JOHN G: Is there an expectation that the [MCA] winners must succeed?

JOCK: The tiers are backwards. First, we should look at countries that need less micromanaging and do well on their own; second tier countries should be defined as those on the border (those who will eventually become MCA partners).

STEVE: Counterargument - those countries need less aid. They don't need \$250 million in assistance but rather trade help.

JOCK: loan guarantees

JOHN G: Strategic implications for governance, investing in people

DENNIS: Let's go back to accountability – Monterrey and MCA. Issues of selectivity, [didn't catch second point], non-ODA flows outweigh ODA flows, accountability shifting to recipients

LINDA: Does “selectivity” mean that MCA will focus on the “best” and the rest will be used on countries that are not there? Invest in performers, performance should be the criteria, select on the basis of the ability to perform.

DENNIS: forecast on the “near-misses”: will USAID work on human rights only? [microfinance in Morocco, MCA eligibility]

How to characterize these ideas?

- 1) selectivity based on performance? (JOHN G: actual or potential?)
- 2) Partnership
- 3) Accountability for Results
 - a. Not an audit

JOHN G: Accountability within a limited timeframe? Time limits? Our programs have time limits but our objectives don't. [graduation and then USAID to provide the remainder?]

STEVE: Institutional set-up – MCA is not USAID. NSS is not specific enough to say that it's not AID.

KAREN: MCA allows for in-country presence.

STEVE: MCA requires a new USG institution

KAREN: Implication is that this current model does not meet USG objectives.

KAREN: Many positives in the NSS – foreign aid is pivotal/key role in foreign policy

LINDA: on the negative side, AID is not set up to address these issues

KAREN: We don't have the tools/skills/experience.

DENNIS: Strategic implication is that AID is not ready for what NSS implies. What is the idea in the NSS? It is a new dangerous world with unprecedented new challenges.

JOHN G: Isn't the point that we need to come up with the new set of tools?

LINDA: What is the lesson learned? We are not learning foreign policy lessons of the past? For example, don't build military airports in [], Pakistan just released all terrorist organization heads from jail.

KAREN: We're focused too much on short-term objectives.

DENNIS: What are the strategic implications of the new challenges?

LINDA: Does NSS specify the role of other actors?
No, only the role of U.S.

JOHN G: There is the issue of pre-emptive action vs. reactive action. How do you prove that you've prevented something from occurring? Ex. HIV AIDS, TB – we're always "down the road."

Pre-emptive mitigation – we shouldn't wait for the threat to present itself

JOHN W.: "Pro-Active Engagement"

KAREN: in 2 chapters that deal with aid, it talks about World Bank grants, loans, expanding agents fro change.

JOCK: more partners

KAREN: the NSS calls it "expanding the circle of development." Expand the number of actors.

LINDA: Chapter 6 talks about trade expansion, trade and aid.

JOHN W: globalization, trade and aid

KAREN: pro-active selection or self-selection?

JOHN W: AID is more responsible for taking care of NSS than MCA.

DENNIS: AID ends up working with *every* situation.

LINDA: may open up key sectors that AID cannot even touch (like police)

KAREN: When we get to Activity 3 put down the need for new authorities.

DENNIS: directly conflicts with high-risk challenges and strategic implications

KAREN: MCA and NSS are mismatched

DENNIS: At a high policy level the NSS is in conflict with MCA and Monterrey.

JOCK: criteria of MCA will marginalize us as players in the NSS

KAREN: further defines, limits MCA

Activity Two: Identify any **major conflicts or synergies** that emerge when comparing the two lists created in Activity One (list no more than 3 below and by order of priority):

JOHN G: The conflict is that AID will be expected to take on performance and high-risk challenges

KAREN: There are bifurcated expectations for foreign assistance.

JOCK: accountability vs. high risk

KAREN: Are there a multiplicity of expectations in foreign assistance? Is there the expectation of performance in high-risk situations?

JOHN G: Partnership is a pro-active engagement. For example, in India, making them address HIV/AIDS

DENNIS: There seems to be a proliferation of ideas that must be narrowed down to the fundamentals. There is the idea that if you have 20 priorities then you have none.

JOHN W: Some say just do economic growth vs. those who say you can't do that.

KAREN: specific criteria vs. expanded areas of responses required. In the MCA there are 16 criteria required to make it. This is too many. There is a need to set specific criteria vs. proliferation of objectives.

LINDA: But we have to do both. We have to do strategic, programmatic and institutional reforms. It's an issue of people, staffing.

State's OE budget has increased.

KAREN: Assistance can accomplish significant change.

LINDA: It's an opportunity for leadership in the interagency – [\[we know that given current constraints\]](#).

MCA is constructed wrong b/c non-development people wrote it.

KAREN: We need to re-established leadership in foreign assistance.

JOCK: Do both Monterrey/MCA and NSS.

DENNIS: think of it as a new opportunity for AID to shine. Expand the circle of development, create partnerships.

KAREN: proliferation of objectives and proliferation of delivery mechanisms is bad synergy

LINDA: everyone knows that MCC will need to draw on the expertise of AID.

JOHN W.: This is a new opportunity for USAID. Proliferation of new players

Activity Three

Recommend **strategic, programmatic and institutional reforms** that USAID will need to implement in the next 3 years in order to address the findings from Activity Two (list no more than 3 and by order of priority):

DENNIS: We have the opportunity, what do we need to do in the next 3 years?
[If we can get Congress and the public to acknowledge the need for development activities, not policy objectives.]

the questions are:

- What to include in the regular portfolio
- How do we balance performance accountability with high risk?
- What are the recommendations to make?
- What do we have to do to get effective?

POLLY: We need to define the strategic objectives. Right now, we do whatever is thrown at us. But we need to lay out a strategic vision of what we will do and what we will not do.

LINDA: Start at the bottom [ex. Conflict, expand activities but we need skill development and authority expansion] If we say we're not interested in failed states, we lose the White House and the American public.

JOCK: [3-4 appropriation accounts – disaster relief, OTA(OTI?), traditional development with partners with capability, likelihood of success, graduation.]

KAREN: Realign funding accounts to the objectives.

LINDA: Strategically. Failed states, disaster is a major part of AID's work – humanitarian. Acknowledge that what we do on the NSS side is a big part of our business.

DENNIS: Get a clear sense of what we should do. AID is good at humanitarian work. If AID is tagged up with the near-misses, be sure that the programs are effective. Whatever you do will be looked at through the Monterrey/MCA prism, the NSS prism. **The more work there is through the NSS, the harder the conflicts of synergies become.**

KAREN: we don't want to be the Agency for International Humanitarian Relief. We don't have competitors in the area of relief.

DENNIS: Go to a terrorist state.

JOHN W: How fast will we move in the area of fighting terrorism?

KAREN: we need new authorities.

LINDA: the reason we were doing cross-border programs in Afghanistan is because no one else wanted to do it.

DENNIS: Part of NSS is what we want to do.

LINDA: Some of these (Nigeria, Caucasus) are not basketcases but they are not MCA-ready.

JOCK: Should we get out of traditional development partners w/o strategic interest?

LINDA: If we're responsive to our president, it is more important to be in some of these countries that are not friendly. Ex. Dominican Republic, Paraguay, Uruguay;

KAREN: Ecuador has more immigrants to the US than any other country.

We don't interact with the WB, IDB, Treasury like we did before.

DENNIS: We need a strategy, core policy about who we are, what we do.

KAREN: We need organizational change.

#1 is that we need a dramatically revised vision and strategy → new staff, new allocation of resources.

DENNIS: What do we do in the next 3 years?

LINDA: Decide what we do and what we don't do anymore.

KAREN: Others are answering the question for us – MCA tells us what we're not doing.

JOCK: #2 reform should be authority/staffing.

KAREN: modalities of delivery mechanisms. 45% of AID is being delivered via K Street.

JOHN G: what AID gives to countries is not money. For example, India wants access to US educational resources

LINDA: But we are building capacity, building situational expertise. Do we want to see the State dept. coordinator take over each of these? Armitage wants AID to be part of State. Gordon and Radelet say that w/o proper leadership we're in trouble.

JOHN W.: There are legal impediments to working quickly in Afghanistan, trying to do things more quickly than possible.

DENNIS: Is the challenge slowness in responding? What do we want to get right for USG to see us in a different light?

JOCK: leadership and credibility?

DENNIS: If the point is to get near-miss countries into MCA then we know how to act. Is there a need to get a revised vision down?

UNKNOWN SPEAKER: We won't get OE because of revised vision statement – they want results. AID is the only agency that reports on results. HHS has no track record.

KAREN: Do we want to seek legislative change?

JOHN G: results framework is requirement for anything.

JOCK: Coordinator idea is based on flawed implicit premise. USAID shouldn't be making implication decisions.

LINDA: When State wanted quick response AID didn't give quick response. We contract out for everything. We do all financial reports.

DENNIS: NSC wants highly visible results within 3 months.

JOHN: [\[OFDA,OTI\(?\) have special authorities that allow for this quicker than others\]](#)

DENNIS: concerted campaign to exert/demonstrate leadership in the interagency process.

JOHN W: new staff, recruitment of staff. Natsios will say he already did this through the 4 pillars but the world has changed in the last 2 years. There is a shortage of foreign service staff.

KAREN: realignment/recruitment of staff. The Sec. of State made a statement that we cannot do this w/o people.

LINDA: we need reassignment of field staff, see the Eckerson study.

KAREN: We need to stop being risk-averse.

JOHN: we already have a budget for the next 2 years. A new alignment of staff is unrealistic. We are seeking to be the ones who assign standards of success. #3 should be the realignment of budget so it corresponds to different measure of success. Don't mix these.

DENNIS: It is a big undertaking to get Congress along these lines for AID. Can you convince Congress to get \$ for development activities?

JOCK: success is measured in different ways.

JOHN G: even if we argue about the proportionality of the budget, if you succeed in one, you fail in 2 others.

DENNIS: If Patrick were to see this cold, he would say "what's the context?" What is it? This dramatically revised vision and strategy. How do you screen out the initiatives that you don't want?

KAREN: We will not be relevant if we resist high-risk countries/projects.

LINDA: AID writes letter, processes paper and signs the check. Look at Turkey.

DENNIS: At this point we're not sure how much AID will be involved in Turkey.

LINDA: we are doing aid so that Turkey will support the war... so that we can land warplanes there.

DENNIS: But then others criticize us because they say you're not reaching your goals, not producing.

KAREN: Get DOD to write the check.

DENNIS: [\[The RDA story\]](#) If there is a big political objective like in Turkey, then AID should say "we're just writing the check" but as long as we articulate it, present it like that, that is part of the NSS. How do we assess success in the midst of so much political maneuvering?

LINDA: the reason certain countries have been graduated is because we have pulled \$ out.

DENNIS: Talking about Engaging Islam and the idea of coordinators:

This is USAID's world:

-MCA (Coordinator to manage)

-HIV/AIDS (coordinator but no control of \$)

-Engaging Islam (Coordinator), MEPI (150 people to work on this)

DENNIS: All of these things are getting away from us.

LINDA: no one talks about diplomacy in the next century but since Habib and Kissinger there have been a great number of special advisors. We had 13 special advisors in the Balkans.

KAREN: We need to re-exert control over our destiny, redefine what we're doing and then tell OMB, the White House. The agency as a whole needs to get a cohesive front.

LINDA: [Have we made a mistake by agreeing to have a joint strategy to go in with State for the budget?]

KAREN: This is fatal to USAID. Now, we really have to do #1.

LINDA: we used to be able to go in with OMB.

Breakout Group B:

**Notes Taken by Carolyn At PPC IDEAS Strategic Thinking Meeting 2/10/03
(Breakout Session 3-5 pm – Group B Led by Thomas Johnson)**

Participants:

1. Steve Hadley
2. Tom Rishoi
3. Richard Behrend
4. Jerry Hyman
5. Dianne Tsitsos
6. Michael Crosswell
7. Joan Atherton
8. Thomas Johnson
9. Carolyn Miller

Activity 1: List 4 of the most important ideas with strategic implications for USAID Arising out of a) the Monterrey Consensus/MCA; and b) the National Security Strategy.

MIKE: MCA grows out of Monterrey – gives clues to it/embodies it. MCA has development as a goal (smaller than NSS). It's about what countries do vs. resources.

STATE: Countries Responsible for their own development – Governance is crucial development. Rules necessary to mobilize private savings and create a positive investment climate.

STEVE: Monterrey – Trade & Investment makes the world go around but must get own institutions to tap into this.

STATE: Clarify – rules create the environment to attract investment and encourage companies to take risks. Important for participation in the international system.

JERRY: More important than individual countries is the question of how processes work within countries. It's not as if countries act in a single way or even rationally. Where a group of strong actors want to move forward, progress will happen, but this often requires that they act against their own self interest. Political elites benefiting from corrupt status quo have no incentive to change the system. We need to break this problematic configuration of forces and change the system so that these countries can move towards MCA-like environment.

MIKE: Donors don't cause or engineer development or domestic reform. Groups within countries do.

JULIA: Poverty reduction at the country level requires differentials in programs based on commitment levels to change within countries [Selectivity]. Failures in World Bank/IMF programs were caused by lack of commitment to positive change among elites. Aid distribution [is now based or should be based] on observing a country's track record – this will allow aid to go to “low-hanging fruit”. But what about problem countries with bad records? The NSS comes into play here.

JERRY: The Monterrey consensus wasn't to not give aid to countries with poor track records.

MOUSTACHE: This was a reaction against ODA [?]

JULIA: [Monterrey](#) Development Goals [MDGs?] issue adding Governance to MDGs.

JERRY: This would require either ratcheting down MCA standards or where there is no political will, can assistance change political constellations to bring a country up to MCA standards. In these cases in the past, emphasis has been placed on the non-governmental side. How has assistance moved countries to a place where they can attain MCA standards? Only 10-20 countries are currently MCA eligible.

JULIA: There are many issues. If there is a problem in an MCA country, there will be USAID programs. What are the implications of programs not under USAID management?

TJ: Sometimes the will for change exists, but not the means or capacity. Should USAID then build this capacity?

After this, the meeting focus shifted to trying to prioritize ideas with strategic implications: These are some of the initial ideas:

1. Countries are responsible for their own development
2. Governance (which covers political leadership and ruling justly)
3. Economic Freedom/Governance & Institutions – 2 strategic implications: 1 would determine aid levels 2) USAID should be in countries strengthening these capacities.

Take issues of governance into account all across the spectrum – MCA country or not.

Difficult partners or low income countries under stress should be treated differently depending on where they are on the MCA scale.

Place on the MCA scale is difficult to determine – there are decent performers (e.g.: Uganda), which are not MCA Countries. This has implications for aid allocation across countries and within countries.

PERFORMANCE – should go in the last box.

Monterrey Consensus Ideas:

1. Responsibility for Own Development
2. Mobilization of Capital
3. Links to Global System

What's new about these ideas – you are still shifting money geographically?

The constraints of propping up regimes or allies imposed by the cold war no longer exist – there is the primacy of development qua development.

MCA is much more selective, but essentially operating under similar criteria as the World Bank.

National Security Strategy:

JOAN: USAID contributes to a broad range of strategic activities (e.g.: regional conflict avoidance). Should therefore be held accountable for different things (i.e.: keep development separate from strategic goals and be judged accordingly). Development can be seen as a separate but important component of the National Security Strategy. There is some debate about whether development is in the NSS as “pure” development USAID contributes to several different objectives.

MIKE: MCA is development writ small vs. NSS which is development writ large. Weak/failed states/Islamic states – the threats are from weak countries. Sometimes National Security Interests are not compatible with MCA-like performance goals (e.g.: Afghanistan). Non-performing countries receive aid because they fall into NSS categories.

A benefit of NSS: USAID can have an impact on broad security goals – this is an expression of the fact that aid can be used in many ways.

Under MCA, aid is most effectively spent on high performing countries vs. NSS where money is used to achieve national security goals.

There are problems where assistance doesn't work – 3rd Axis (MCA/NSS and then countries in the middle). [[This idea wasn't fully pursued](#)].

There are two different sets of countries, but external assistance is not going to make or break decisions [made there](#).

1. Economic Development added to our National Security Strategy
2. Enlarge the circle of democracy
3. Aid effectiveness improved
4. Address zones of instability

ODA only works where countries have taken responsibility for their own development policies.

HIV/AIDS and Global Environmental Threats are in the NSS as entities distinct from development. Had 9-11 not happened, development wouldn't have this emphasis – increases the number of countries.

Synergies & Conflicts:

1. Lessons of Aid Effectiveness +
2. How to deal with poorly performing countries (broad foreign policy objectives vs. narrower development objectives) –

Strategic Reforms:

1. Disaggregate Anti-terrorism/stability money from development money – sometimes money is needed to distract populations from their problems and keep a country stable (bread & circuses).

Conflict:

1. Non-MCA observers/allies/countries we're trying to keep terrorists out of get development anyway
2. Should AID only do development?

Synergy:

1. Countries which adhere to Monterrey/MCA will help NSS

Problem: How do we set priorities? Still missing the middle countries (those not doing well enough to be part of MCA, but not unstable enough to be considered a National Security Threat). How to distinguish countries in the middle?

Synergy:

1. Both MCA/NSS return the focus to countries' governance and institutions.
2. NSS recognizes Transnational issues.

Other Actors: Just because "we" (USAID) don't do something, doesn't mean that things don't get done.

There is more inter-agency cooperation than ever before.

Strategic Reforms:

1. We need to disaggregate measures of success depending on objectives (i.e.: NSS or development).
2. Evaluate what USAID does well and doesn't do well
3. Develop an internal financial management system.
4. What is USAID's relationship to MCA – what will its role be in aid delivery?

Breakout Group C
Impact of the Strategic Priorities Identified in the Natsios Report
on USAID Programming

1. Ed Kadnunc
2. David Eckerson
3. Dan Runde
4. Jay Smith
5. Rosalie Fanale
6. Tammy Wincup
7. Tish Butler (?)
8. Mike (Kanaley?)

Topic 1: Democracy and Governance

- Governance has to apply to everything in some context, however there are several issues regarding how this will be incorporated:
 - Is this going to be cross-sectoral?
 - Will training opportunities exist or be mandated (i.e. teaching implementers of health oriented programs to incorporate governance objectives)
 - Addressing the problem that for governance the demand side is high, but the supply side is weak.
 - Will these reforms come from the top-down, or bottom-up?
- In order for governance projects to be effective there has to be an element of political will within the country. Ideally a “watch dog” organization would exist, but, at the very least, the emergence of civil society structures will exist. Can AID build or instill and “internal voice” in these countries? It is beneficial to identify a champion within the country, who occupies a position of importance.
- How do you deal with countries that lack political will (how do you build/trigger political will)?
 - Surveys?
 - Country-team functions?
 - If you increase the participation of many institutions (horizontally across the government) will the sustainability of a project increase as well?
- Currently all governance initiatives are bound to a specific sector. These limitations must be removed and the “governance lens” must be applied to everything.
- Will the definition of good governance, and the steps taken to improve good governance be flexible enough to adapt to all tiers of countries.
- Strategic implications of reform:
 - Broaden technical sectors
 - Bureau mission director must head the vision
 - These governance elements must be included into contractor, grantee scope of work
 - Increase selectivity in DG investment

Topic 2: Driving Economic Growth

- How do you establish relationships between the embassies as well as the private sector? Not only must relationships be formed, but each player has to be a stakeholder and have a vested interest in the success of the program; how is this possible?
- There is a need to articulate what AID does best in this area (i.e. increasing institutional capacity in order to improve the overall business environment)
- There has to be a team approach with the USG as well as the private sector.

Topic 3: Accounting for Private Foreign Aid

- The alliances which are formed between AID and the new donors have to be strategically aligned.

Topic 4: Mitigating Conflict

- AID must apply the “lens of conflict” selectively (i.e. critical areas of instability) and focus on the root causes of U.S. security threats.
- Re-think how to utilize multilateral organizations and non-USAID partners because it is counter productive to leave “USAID handprints” on post-conflict projects (i.e. US will rebuild Iraq and the reaction which followed in the Muslim world).
- A business model needs to be developed in order to deal with failed/failing states (similar to the DCHA strategy [?])
- How do we prevent conflict when conflict is desirable from a U.S. strategic interest standpoint?

Topic 5: Health

- In order for health programs to become more effective, there needs to be an element of institution strengthening and development in all health oriented projects; i.e. shifting from intervention strategies to institutional development strategies without any gaps.
 - Or, alternatively, need to build institutional development aspects into the delivery of services/treatment.

Topic 6: Humanitarian Aid

- USAID needs to analyze constraints to strategy for engaging other providers of effective and timely humanitarian aid (i.e. capturing private flows).
- PCC must be used in order to articulate the new strategy vis-à-vis the other donors.

Breakout Group D

NOTES OF BREAKOUT MEETING 2-10-03

GROUP D: Impact of the Strategic Priorities Identified in the Natsios Report on USAID Programming

Ann Phillips, Group Leader; Clare Wolfowitz, recorder

1. David Painter
2. Gloria D. Steele
3. Joyce Holfeld
4. John Breslar
5. Lee Howell
6. Ann Phillips
7. Jeff Grieco

Topic 1. Democracy & Governance

A. Are these necessarily linked? No – democratic institutions may be corrupt; corruption cannot be *assumed* away.

What are the implications of focusing on one or the other?

Do we combat corruption best by enhancing democratic processes or by institution-building?

Decentralization trend complicates this area, by requiring reforms at the sub-national as well as national level.

Where institutions are weak, democratization may de-stabilize; moreover, there are few instances of democracy-led development. Typically, rapid economic growth is accomplished under tight centralized management. Democratic reforms may come later, as in Taiwan, Korea, Singapore.

Conclusion: Focus on institution-building (governance) rather than democracy, as an initial approach.

Key interventions: rule of law and media development.

B. What is the strategic implication for USAID of a focus on governance/corruption?

1. Identify corruption and corruption agents.
2. Assess the impact of corruption.

Corruption has multi-sectoral impact, cannot be viewed as a “D&G” issue; we need to apply a “corruption lens” to all activities, e.g. in selecting partners and recipients.

- Use a corruption assumption in designing programs
- Look out for corruption opportunities created by programs

Topic 2. Economic Growth

Agricultural trade is fundamental for the poorest countries.

Strategic first step is to identify comparative advantage, through competitiveness assessment; identify missing linkages.

(This evaluation must be “sold” to recipient country as well as to Congress.)

- Identify/create new employment opportunities in industry/micro-economy

- Improve agricultural productivity to require fewer workers

Institutional reform is key to providing new opportunities, by encouraging FDI and facilitating micro-economy.

Need to provide reform incentives, along with aid. Need to assist with staffing support.

Topic 3. Private Aid Flows

Private donors and investors are looking for the next growth area.

- USAID needs to take account of that motivation in order to collaborate effectively – a form of due diligence.
- Study the “enabling environment” that brings other actors into a particular country.

Government culture does not easily blend with private culture:

- USAID regulations that make collaboration difficult are often necessary (such as tracking flow of expenditures)
- they may be mandated by Congress

USAID needs to be more open to collaborative partnership. This calls for a different partnership modality:

- Division of functions, not merging
- USAID can provide direction for private aid flows, on request
- How can USAID become more partner-friendly?

Topic 4. Health

Viewing health as a means to economic growth: does this paradigm shift reflect USAID priorities? (Currently, health is assessed in terms of measurable benchmarks as an aspect of basic development, gauged according to 3 categories of development level.)

1. Health assistance must become more system-oriented, rather than intervention-oriented.
2. We need to better align objectives with resources (which are scarce), according to strategic criteria. *This applies throughout development assistance, cross-sectorally.*
3. Maintain distinction of 3 development levels: MCA countries; sustainable development; failed states. *This also may apply cross-sectorally.*
4. HIV/AIDS represents a new situation which will require much better strategic budgeting, with decisions about criteria and guidelines for targeting assistance. Should good governance be a criterion?

Topic 5. Conflict

Much humanitarian assistance is a function of conflict and its indirect effects.

Recurrent conflict requires a longer-term systems approach.

- Can development assistance address conflict?
- Do we know what works to mitigate conflict? (No.)
- Is there a way to demonstrate success in preventing conflict? (No.)

In some regions at least, a “conflict lens” needs to be applied to all assistance programs:

- Take account of possible triggers of conflict.
- Guard against unintended effects, such as providing contested resources.

In humanitarian/conflict assistance as well as in other areas, USAID can perform role of catalyst and coordinator, both among US government agencies and with other donors.

This role may be USAID's niche, a core competency.

Topic 6. Humanitarian Aid

Humanitarian and development assistance are rarely coordinated.

- We need a mechanism for “graduating” countries to a new development status, to coordinate ongoing efforts.
- GDA should handle this through private networks.

1. **We should retain an early-warning system, and we need an early-response system** (so the package doesn't need to be reinvented each time).

2. **We need after-action analysis and assessment:** do we allow enough time post-crisis before moving on to the next crisis?

POLICIES THAT COMPLEMENT AIMS:

1. Strategic budgeting to align resources with objectives.
2. Leadership role with GDA.
3. Global competitiveness councils as model for strategic assessment approach.

POLICIES THAT CONFLICT WITH AIMS:

1. USAID core competency may be different than in the past, within new framework of assistance funding streams.
2. Emphasis on democracy at the expense of governance.
3. Gap between humanitarian intervention and development assistance; no transition mechanism.

RECOMMENDATIONS:

1. Align resources and priorities in strategic budgeting (and reflect in performance assessments)
2. Assume greater leadership role in coordinating assistance; maintain better communication with partners.
3. Adopt proactive communication strategy at home and abroad.

Day Two: 02/11/03

9:00 a.m. – 10:00 a.m. *Plenary, Session 4: Legislative Context*

Barbara Turner's Introduction of Bob Lester

There was a letter to the editor in the Post called Tough Love in Foreign Aid
Bob Lester has a good relationship with Congress and Robyn Cleveland

Bob Lester

I am a pessimist, I came from working on Hill, as a staffer on the Hill I was a friend of AID

Looks like a disintegration of AID,
HIV=\$450 million for global aid, child account and HHS money goes to a coordinator
Food famine request \$200 million managed by AID
MCA, AID was not mentioned in the legislation
Counting fund \$100 million, AID not mentioned
So why the problem? What is it?

Senator Lugar has made known that he wants to rewrite the FAA, State has made it known that they are interested as well
Neither know what is in store when they begin, this is not an easy task with the conflict over family planning etc.
There are tons of issues that will have to be dealt with
Interest groups will be coming out in force
I doubt that the rewrite will happen, there are too many other things going on such as Iraq, MCA, HIV initiative etc.
HIRC has more experience on this issue
Senate Foreign Relations committee still new, probably not likely
The FAA is out of date, just look at section 106; it stresses the need to use non-renewable energy sources
Conceptually it does not represent what we, USAID, do now
But a rewrite may not be any better
The last time a rewrite was attempted Skip Boyce said good job I only have two problems with it, the words and the numbers
There is not a member in Congress that understands sustainable development
GPRA focuses on results in AID
The Hill focuses on inputs
There are big pressures on the Hill, bigger than at AID
There is no domestic constituency for AID
For members foreign aid is a freebie, they can earmark it and not take anything away from other voters, there is no cost to them,
There is a need to explain to the members why earmarks hurt aid and how they are not in the US's interest

There are two portions of requests; the Child Health and Survival portion and the Development Assistance portion
The latter portion has no meaning to people on the Hill

They must be shown that economic growth leads to trade capacity and that will benefit their constituency

However USAID can not explain well

A rewrite of the FAA needs to emphasize what AID does and be understandable to the Hill at the same time

We need to do a better job with OMB as well

If money is put into a box they, the Hill, understands like agriculture they will be less likely to cut it, how can they cut agriculture?

The Child Survival and Health part of the budget is growing faster than the rest of the general budget

Tish Butler

Explain what the downsides of a possible FAA rewrite could have

Bob Lester

There have been attempts in the past, most recently Clinton's PPDA act in '94, that tried to get the earmarks off of AID, but nothing happened on the Hill

The first Bush administration tried a rewrite but that would have been worse than the current FAA

Joan

DFA created in appropriations act. Can we use that process to get a better message?

Bob Lester

Yes, but the first time that could be done is the 2005 budget

If the administration goes on the record to restructure the FAA

AID is the only one in position to say what's better than what we have now

Mike

They, people on the Hill, don't understand? They went to college didn't they? Do they really not understand or is AID just a low priority for them so that it gets traded off very easily. What can we do more directly to build up a constituent base?

Bob Lester

Post 9/11 foreign aid is seen as more important. AID has not captured this though, development is an abstract concept, it needs to be made more understandable

Mike

Development is important, it gives a political gain

Bob Lester

It can do both, we need to focus on this and get more support

Barbara Turner

CSH program a sacrifice, we need more flexibility, we need to move toward general funding

We have a chance to do more things now, they will need to be done differently

Bob Lester

See where the Hill goes on MCA and then build off of that

Question

There are constituencies out there for foreign aid, there are groups of people in this country who are interested in aid to Africa and Latin America, how do we take advantage off those people's political support?

Bob Lester

Have DFA come of both Seed money and Function Accounts

Thomas Johnson

This is dangerous

The FAA is not likely to be rewritten this year and then next year is an election year

The administration goes to bat on the MCA, is there a chance that this is all there is?

Will there be no push for AID's part?

Tish Butler

The elevation of development in the view of the NSS, is MCA support the only part of this?

Barbara Turner

There have been big increase in budget for foreign aid and these have been straight line for the most part

Steve Radelet

All initiatives outside AID

Barbara Turner

USAID pushed all new direction, I saw Powell on HIV when he first came in, AID agencies were involved

Local ownership, flexibility these were ideas stressed by AID about development

Emergency famine relief promoted as well

Bob Lester

Lugar's staff will start late this year or early next with a rewrite of the FAA, it is unlikely that it will pass, next year he will have less to do because the State department authorization for two years will be finished and the HIV initiative will be done

Personal relationships are important outside of AID, we need to behave differently toward the Hill, need to develop an enduring relationship with the Hill that is credible
There are strong constituencies outside of AID on development topics, these need to be harnessed

Tim Resse, a member of Lugar's staff, will be big in this rewrite attempt; we need to educate the Hill as to what they need to know about development and why it is important

OE constraints are key; we need to deal with these and separate OE accounts so as to deal with the administrative costs of foreign aid

Steve Hadley

Why political support? The support for development is threat driven. NSS sees development as one of the pillars. So what is our situation? Lugar and Biden have good experience on development.

Bob Lester

When people from the Hill go into the field and see the things that AID is going they like it, they can not stand AID in Washington though

We are our own worst enemy

We have the OE problem which is basically a US government problem

It is an administrative versus program cost problem

Barbara Turner

The problem is not that AID employees are stupid

There is a lot confidence in the abilities of the individuals who work for AID, but not in the organization

There is a respect for the expertise and performance of the organization

MCA went elsewhere because there is too much baggage at AID

How do we get rid of this?

We do well in the field and in many cases that is the part we emphasize

We do not know how to talk in inter-agency meetings, we are always defensive

We do not aggregate

We are too detailed in our costs, we have orders of magnitude problems

Many behavior problems, but the baggage AID has is still an albatross around our necks even if we change behavior

John Simon

The decision on MCA did not just leave USAID out, it put it out of the hands of all other agencies

We need to come up with ideas first and then the money follows those ideas in this administration

Steve Radelet

The focus on the field versus DC is a big issue

This administration focuses on projects they like and think are successful, that is how the MCA came to be

The Uganda program is another example where Tony Fauche sold the idea and it got expanded

How can USAID be convincing like this, you must show what works and this will get jumped on

Bob Lester

There are lots of things that AID can do better. The Hill calls AID and tries to get an answer and there is too much consultation and fear, so they call the field to get the answer quickly

We need the information to give them the answer now

Barbara Turner

Open up comments to what we should do, how things get done

Question

How do we fix procurement problems?

How do we reach out better to Congress?

We can not do outreach very well

Bob Lester

USAID is doing grassroots in State with outreach

No one was doing this a year ago

Question

Is there a better way?

Bob Lester

Legal problems, GC wants to know

Question

AID wants direct hire, Administration wants to contract out

Barbara Turner

We have no way to tell what AID does on the personal side

Bob Lester has been a dose of reality

How to get things done

How we mix things into our development agenda

Not that we shouldn't do new things in our political agenda, but what and how?

10:00 a.m. – 10:15 a.m.

Break

10:15 a.m. – 11:15 a.m.

Plenary Session 5: Summary of Working Group Reports

Breakout Session Summary Reports

Group A (presented by Jock)

Ideas in Monterrey Consensus/MCA

- Performance
- Partnership
- Accountability
- New USG structure (w/USAID)

NSS

- foreign aid is important to security
- new high risk challenges
- proactive engagement
- circle of development
- globalization, trade and aid

Potential conflicts

- accountability vs. new high risk challenges
- partnership vs. proactive bilateral activity
- set criteria vs. proliferation of objectives
- opportunities for USAID

So:

Dramatically revised vision and strategy, identify 3 things to do well

- humanitarian assistance, conflict, and failed states
- sustainable development
- MCA

Campaign for leadership with new authorities, realign staff, and produce new ideas

Reorient the budget, and standards to meet new objectives

Non-strategic, non-performing countries?

BREAK OUT GROUP A
Facilitator: Dennis Wood

Activity One (30 minutes: Group Format)

List 4 of the **most important ideas with strategic implications for USAID** arising from the:

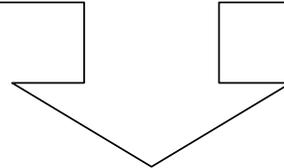
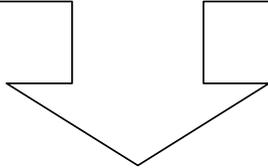
Monterrey Consensus/MCA

&

National Security Strategy

1. Performance (actual or potential)
2. Partnership (varies)
3. Accountability for results
4. New USG structure (not USAID), current model does not work.

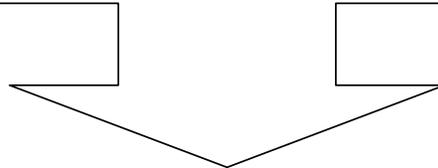
1. Aid has key role in foreign policy
2. New high risk challenges
3. Pro-active engagement
4. Expanding circle of development
5. Globalization; trade and aid



Activity Two (20 minutes: Group Format)

Identify any **major conflicts or synergies** that emerge when comparing the two lists created in Activity One (list no more than 3 below and by order of priority):

1. Performance and accountability vs. high risks
2. Partnership vs. pro-active engagement
3. Set criteria vs. proliferation of objectives
4. New opportunities for AID



Activity Three (30 minutes: Group Format)

Recommend **strategic, programmatic and institutional reforms** that USAID will need to implement in the next 3 years in order to address the findings from Activity Two (list no more than 3 and by order of priority):

1. Dramatically revised vision and strategy (decide what we do and do not do anymore)

2. Concerted campaign to exert leadership (new authority, realignment of staff, ideas, standards of success)

3. Realign budget to correspond to strategy

Group B (presented by Diane Tsitsios)

Monterrey Consensus/MCA

- Increased country responsibility
- governance matters
- capital mobilization matters
- link to global sectors

NSS

- economic development is important
- support of democratization
- aid effectiveness
- zones of instability, failed states

Conflict-synergy

- Monterrey is consistent with the NSS-both recognize the importance of development
- FA category is larger than development aid
- MC and NSS focus on countries, institutions and government, not sectors

Recommendations

- discreet objectives-judge successes and failures by objectives
- distinguish between what AID does well and what it does not do well, and define our relationship to MCA
- other FA modalities
- reform our inter-government reputation
- set few core goals and focus on countries/strategies (many policies affect development objectives more directly than only AID, i.e., trade)

BREAKOUT GROUP B
Facilitator: Thomas Johnson

Activity One (30 minutes: Group Format)

List 4 of the **most important ideas with strategic implications for USAID** arising from the:

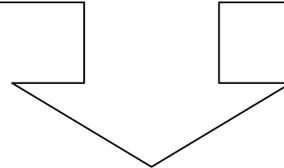
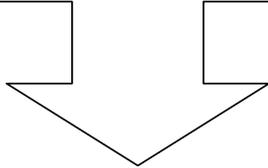
Monterrey Consensus/MCA

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National Security Strategy

1. Responsibility (countries)
2. Governance
3. Mobilization of capital
4. Links to global system

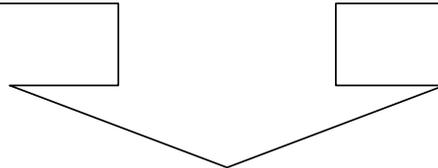
1. Economic development
2. Support democratization
3. AID effectiveness
4. Address zones of instability



Activity Two (20 minutes: Group Format)

Identify any **major conflicts or synergies** that emerge when comparing the two lists created in Activity One (list no more than 3 below and by order of priority):

1. Monterrey consistent with NSS +
2. Foreign Aid category is larger than the development aid -
3. Both focus on countries, institutions, governance +



Activity Three (30 minutes: Group Format)

Recommend **strategic, programmatic and institutional reforms** that USAID will need to implement in the next 3 years in order to address the findings from Activity Two (list no more than 3 and by order of priority):

1. Discreet objectives with corresponding measures of effectiveness and alignment of resources
2. Distinguish between what USAID does well and doesn't do well (evaluate)
3. Define USAID's relationship to MCA and other foreign aid modalities
4. Continue to improve internal management systems
5. Interagency coordination: set few core goals, and strengthen focus on countries/country strategies.

Discussion

Joan

The fact that foreign aid is larger than development aid is a conflict. So, AID needs to have objectives that see the big picture, and then takes that information and applies it to smaller objectives.

Tish

Dramatic revised strategy and improved management departments. The latter is not as important as a clean strategy

Joan

What information lead to the conclusion that higher per-capita countries are better able to govern?

Jock

MCA eligible countries are those that can best utilize the funds given to them

Linda

Where is the political constituency for MCA?

Barbara

Need to think about MCA budget transparency, procurement reform, and determine what the MCA does better. Will there be problems with accountability?

Tom

Failed states are in the NSS, but what about preventative measures for failing states? (we need to be proactive)

Tish

Andrew wants developmental relief-how do we get emergency to development?

Dave

What don't we do well?

- we should also consider getting out of things that we do well
- MCA, non-MCA, failed states-this is too big

Barbara

AID is not just a sector issue, we can do democratization well in one country, but poorly in another. There has to be political will, or a regional approach as a different option.

Steve Radelet

AID must be harder on itself, and show evidence. People do not believe in AID the institution

- show what you do well: health, HIV, agriculture
- have to choose to NOT do some things (this needs to be figured out in order to set priorities)

Democracy and governance: does FA make a difference?

Karen

Sectors will not be easy to cut. Need a wide variety of assistance, but the ways we do it need to change.

Linda

Risk, what's worth risking-everything in the crisis atmosphere? Delivery only? Non-MCA countries, or near misses? If impact can not be measured clearly, is it worth attempting to deliver.

Rosalee

Country programs = a little bit of everything

Steve Radelet

If a problem in the country exists, do we have the potential to fix it?
Is FA the correct mechanism to fix it?
Is USAID the correct donor to involve?

The way AID does business needs to include all of these questions, and this tends not to get done.

Barbara

We can always find a program to fund

Jock

Country strategies help to cut some of this out

Jerry H

Rosalee-own org- do the bilateral programs and missions meet our needs? Develop a more centralized direction now. Are we organized correctly? Are bilateral agreements ALWAYS the right way?

Joan

We do humanitarian assistance well, but if we are not careful this could be the only thing we end up doing. Development intervention strategy needs review; do we get involved pre or post crises? How do we get ahead? Small "I" in intervention? We do not want to become the humanitarian assistance organization.

Linda

We can not graduate, we need to decide.

Tish

We don't partner with other donors as well, we could develop a country strategy but that does not mean that we have to do everything. Support PRSPS and support development.

Oakley

The amount of aid going into countries is not coming from ODA. Therefore AID must act in partnership with these new, emerging donors; not competition.
Try to influence development country wide: HIV aid alone will not suffice
Get partners outside the USG as well

Group C

Chapter 1: Governance

- it matters to all programs and therefore should be built into all sectoral work
- democracy and governance funding-need political will in the host countries

Chapter 2: Economic Growth

- enabling the environment: AID does this best, but there is little funding so AID needs to identify partners
- capacity building: to develop institutions which are needed locally
- agricultural importance

Chapter 3: Accounting for Financial Flows

- alliances are not strategically targeted yet

Chapter 4: Health

- Move from intervention to institutional development strategies without any gaps
- work with constituencies to enable these changes

Chapter 5: Mitigating Conflict

- successful in post-conflict
- use multi-lateral strategies
- need a business model for failed or failing states
 - DCHA working on a strategic framework (food, emergency assistance, democratization, and transition)

Chapter 6: Humanitarian Aid

- need to develop a strategy in order to engage other providers
- capture private financial flows
- policy
- finish the DCHA strategy (use the PPC to articulate the strategy vs. other donors because AID responds faster)

Tish

We don't actually prevent conflict, so what can we do?

BREAKOUT GROUP C

Facilitator: Tish Butler

NB: The content for breakout group C was extracted from the breakout group discussion, which did not follow exactly the given template.

Activity One (30 minutes: Group Format)

List the **single most important strategic implication for USAID** arising from each of the 6 chapters of *Foreign Aid in the National Interest* (Natsios Report):

Promoting democratic governance: In many developing and post-communist countries, people are losing confidence not just in elected officials but also in democratic institutions. Yet democracy and good governance are key requirements to spur development and reduce poverty in poorly performing countries.

Must establish a governance component in all projects. Governance initiatives work best when there is political will existent in the host countries.

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Driving economic growth: To reduce poverty, developing countries must sustain conditions that promote growth over long periods – that is the big historical lesson that development economists now understand.

AID has a great track record of enabling the environment in countries, but must increase the levels of partnerships with the host countries.

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Accounting for private foreign aid: There are many other actors working in development assistance that are not from the government. Many non-government sources also provide foreign aid: foundations, corporations, private and voluntary organizations, universities, religious organizations and individuals. All these other resources provide nearly \$60 billion a year (six times the official assistance).

Alliances have to become more strategically targeted.

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Improving people's health: Fundamental to economic growth is improving everyone's health and education. In order to be productive, workers must be healthy. Diseases that cause illness and premature death must be identified, prevented and managed – including future health problems which we know will be more diverse and the long-term economic impacts which we fear will be enormous.

Need to move from intervention strategies to institutional development strategies without gaps.

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Mitigating conflict: We know that conflict is the product of deep grievances, political and economic competition, irresponsible political leaders and weak and unaccountable institutions. Preventing conflict requires long-term interventions that make states and societies better able to manage tensions. This issue is at the nexus of foreign aid and national security and is critical in the context of preventing state failure.

We have been successful with post-conflict projects, but have failed at prevention. AID needs to build a “business” model in order to deal with failed and failing states.

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Providing humanitarian aid: The need for humanitarian assistance shows no signs of abating and new dimensions of disasters will create new demands. Trends indicate a larger, more complex role for humanitarian assistance in the coming decades.

AID needs to develop a strategy for engaging other providers of effective and timely humanitarian aid.

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Group D

Ann

- Group wanted to consider more than the Natsios report
- Governance is the primary focus. We have to separate democracy from governance, and acknowledge that it flows through other chapters. Corruption as well.
- Competitiveness is key issue-growth is the key engine. Have to define the roll of agriculture and how we use agriculture as an engine.
- Pre-USAID be more open to partnership. Do due diligence.
- Health-direct programs from intervention to institutional strengthening and add elements of economic growth.
- Conflict and Humanitarian intervention aspect should be integrated into programs across the board.
- Strategic budgeting (GDA) and competitiveness
 - Conflicts: These are not matched to priorities of AID, DG programs focus on development and only look at governance instead, there is a gap between humanitarian assistance and long-term development assistance, word is that AID is flawed on the ground.

Recommendations

- have to align priorities and resources in a strategic budget
- governance and anti-corruption elements in all sectors
- divide countries into three categories (MCA, non-MCA, and failed)
- must assert a greater leadership role in coordination if a new core policy and strategy is adopted
- pro-active competitiveness strategy

BREAKOUT GROUP D

FACILITATOR: Ann Phillips

Activity One (30 minutes: Group Format)

List the **single most important strategic implication for USAID** arising from each of the 6 chapters of *Foreign Aid in the National Interest* (Natsios Report):

Promoting democratic governance: In many developing and post-communist countries, people are losing confidence not just in elected officials but also in democratic institutions. Yet democracy and good governance are key requirements to spur development and reduce poverty in poorly performing countries.

Governance needs to be primary focus (not democracy)▲

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Driving economic growth: To reduce poverty, developing countries must sustain conditions that promote growth over long periods – that is the big historical lesson that development economists now understand.

Competitive assessment is strategic first step▲

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Accounting for private foreign aid: There are many other actors working in development assistance that are not from the government. Many non-government sources also provide foreign aid: foundations, corporations, private and voluntary organizations, universities, religious organizations and individuals. All these other resources provide nearly \$60 billion a year (six times the official assistance).

USAID needs to be more open to collaborative partnership▲

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Improving people's health: Fundamental to economic growth is improving everyone's health and education. In order to be productive, workers must be healthy. Diseases that cause illness and premature death must be identified, prevented and managed – including future health problems which we know will be more diverse and the long-term economic impacts which we fear will be enormous.

This places health as a means to economic growth, in we do a major paradigm shift-OK, but need to decide...▲

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Mitigating conflict: We know that conflict is the product of deep grievances, political and economic competition, irresponsible political leaders and weak and unaccountable institutions. Preventing conflict requires long-term interventions that make states and societies better able to manage tensions. This issue is at the nexus of foreign aid and national security and is critical in the context of preventing state failure.

Need to apply "conflict lens"▲

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Providing humanitarian aid: The need for humanitarian assistance shows no signs of abating and new dimensions of disasters will create new demands. Trends indicate a larger, more complex role for humanitarian assistance in the coming decades.

Need to institute early warning and early action systems, as well as a post-disaster assessment▲

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Discussion

Joyce

AID doesn't have the discipline to make choices. We take on every single project in all countries and then we have a situation where we are under resourced—AID can't do it all.

Joan

AID is hobbled by the way we look at programs. In civil society, we need a more developed study on institutional development. We need a better way to surface tell story about us—especially with respect to institutional development.

Oakley

“Governance” is too much. *Reduce ambitions to what is manageable* in the specific contexts of corruption, conflict, and governance.

(Anecdote given): keep it simple.

Categories—“development” is too broad. For example, understand how to react in case of crises. Counter-terrorism has taken the place of communism. In a crisis situation, AID will compose of part of crisis response team. Crime prevention team. AID can be a part of bigger ideas, people and resources if it stops treating everything as a competition and cooperates better. *Move resources cooperatively with limited objectives.*

Show you are making a contribution and take credit. Tell people how you've done in HIV/AIDS, Afghanistan, etc.

In sum:

- Be more flexible and imaginative
- Far too bureaucratic
- Cut across stereotypes
- Keep it simple

Barbara Turner/ Thomas: Next Steps

Next steps: what are they??

Two types: process and product

Process

- We will need a follow-up event (half day) to establish direction. IRIS will assist.
- Then , when we are comfortable with direction, we'll take outside to others—USG, think tanks
- To take place this spring
- Summary from this? Strategic plan? Overseas presence review?

- Describe event ourselves and then send out to the field
- We need to put the threads of today's strategic thinking into a strategic plan
- Will we work only in Tier II and failing states?

Karen

We need to act fast. Andrew Natsios is due to testify in front of Congress. He should explain what we're doing strategically.

Linda

We need to work on getting OMB approval now. If we don't like change, we really aren't going to like irrelevancy

How do we relate AID-wide efforts to the new initiative? How to change because of the President's initiatives?

Tish

We need to define the process. Where do we see AID in three years? It will take time so we need to get our feet established now and get moving on this. We now have a different lense from this workshop. So let us all get moving. Let's also not miss the big picture.

Richard Behrend

Avoid becoming a Christmas tree: from what I've been hearing, the tree continues to grow. Can't include all programs in all countries. "Governance" is everything. The Hill constituencies are still there. Should leverage private flows and move beyond official flows

So:

- Accept and respond: improve results, description of service, systems
- Get out of some entirely
- Eliminate in-house ability and contract out
- Do all but more geographic countries

Jerry

Strategy: Align resources with objectives

Define series of choices: MCA, Tier II, crisis

What does AID do in each?

Make policy makers decide by getting these choices out in front of their view

Perhaps write a paper for strategic choices

Mike

Core concerns: which countries to work in? What will AID do? Can USAID make a difference? Can foreign aid make a difference in these places and environments?

Behrend

I agree with Karen's point—do this fast. To do:

- Relate this discussion to the NSS. Leverage this as a tool to NSS.

- Urgency—move to offensive from defensive stance. Otherwise, AID will be left with what others give them
- Huge initiatives keep coming—“here’s where USAID wants to play”

Thomas

How will we feed this workshop into the strategic plan? Andrew’s message: get this into a higher plan in a few pages.

Behrend

Execution is different but don’t wait for organizational level to be clear in order to act.

Steve Hadley

The NSS says development is good, but AID has no discretion and ends up with a Christmas tree. We should set our terms and priorities per the NSS. And should compartmentalize.

Joan

Have Andrew talk about aid effectiveness approach—not sectoral approach; country selections and what we do there.

Barbara

One role of a workshop like this is to get at operational, organizational issues. What coordination issues are there with State? We need to talk jointly about them.

We will work with State.

Sharpen our role in the MCA

Conversation with political leadership of USAID

Andrew speech

Evaluate agenda for year. Report success and measures.

Communicate to Hill and OMB

Overseas presence issue—engage others in it to reflect options

Focus?

Christmas Tree?

In between?

Tish

Choose to use FANI report as organizing way

Steve Radelet: Summary and Parting Comments

This time is extremely important. Gives USAID credit for asking the hard questions.

This conversation needs to be continued.

Opportunity: this is a tough challenge but an important opportunity as well. The key is to focus on what AID does well and what it does not do well. Then, AID must empirically demonstrate what it does well.

In the MCA world, it appears that AID will not have a primary role to play in the MCA countries. However, it may have a huge opportunity to embrace the challenge of working with the Tier II and failed/failing states.

Clarity on what works is paramount—internally, first and then externally. And AID needs to cite concrete evidence to collect and convince others in Washington.

Developing a Common Strategy is crucial

- Internal
- Interagency
- Public

USAID has three “black eyes”:

- Results—people don’t believe they occur
- Ideas—AID is not proactively bringing ideas to the table. They are perceived as being too defensive
- Bureaucracy—the perception is that there are major deficiencies in the process and coordination of personnel

Parallel between USAID and NASA: Note well in the coming weeks how NASA reorganizes and redefines itself. It will have to answer similar questions. So what is our purpose now? Is it really in the national interest? If so, what have we done well? What do we do well? What will the future hold?

A disaster (or problem USAID is currently facing) begs the question: how do we lose focus and how can we re-focus?