DEVELOPMENT, FOREIGN AID, STRATEGIC PLANNING, AND THE GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA)

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ABSTRACT

This paper analyzes options and issues surrounding strategic planning and management in the context of developmental foreign aid. We derive a definition of “strategy” specific to developmental foreign aid and then present a simplified model for strategic management. We then consider various complications and constraints and discuss implications for the model and for conforming to GPRA. Finally, we discuss a popular alternative model based on clusters of similar programs (in health, family planning, etc.) and point out the shortcomings of such a model.

INTRODUCTION/SUMMARY

The Government Performance and Results Act (GPRA) directs U.S. Government agencies to manage strategically for results, utilizing a Strategic Plan (SP); a forward-looking Annual Performance Plan (APP) that outlines performance goals and expected results and serves as the basis for budget requests; and a backward looking Annual Performance Report (APR) that compares actual performance with expected results. This led to USAID’s first strategic plan in 1997, as well as a series of annual performance plans and annual performance reports. It also led to considerable debate about how best to go about strategic management and budgeting.

This paper was originally written to facilitate discussions with the Office of Management and Budget (OMB) about the 2000 revision and update of the 1997 USAID Strategic Plan—particularly the issue whether USAID should have a strategy and strategic plan based on a limited number of “program clusters” (groups of similar programs such as family planning or micro-enterprise finance), with performance goals and targets based on common indicators for each group of programs. The updated version of the paper was intended to inform subsequent debate about strategic planning and strategic management for USAID.

The paper analyzes options and issues surrounding strategic planning and management in the context of developmental foreign aid. It begins with a brief discussion of “strategy,” starting from dictionary definitions and arriving at a definition specific to foreign aid and development.

It then presents a basic, “best practice” model of development aid provided to a limited number of countries. This includes both basic assumptions about the challenge of development and the role of foreign aid; and a process for resource allocation that is arguably strategic and aims to maximize results. This model provided the conceptual foundation for the revision and update of USAID’s 1997 Strategic Plan.

The paper then gradually introduces complications and constraints. These include:

- GPRA (The Government Performance and Results Act);
- operating in many rather than only a few countries;
- broad foreign policy concerns other than development, including transition from Communism and crisis prevention and recovery;
- distinguishing among countries and regions based on general foreign policy importance;
- specific foreign policy concerns;
- and finally, functional earmarks.

Along the way we look at how to approach GPRA requirements and the pros and cons of program clusters as a management and reporting tool, including common indicators and targets for each cluster.

To briefly summarize the implications of the various complications and constraints,

- The introduction of GPRA is straightforward. GPRA affects only reporting and not “how we manage”. The products mandated by GPRA (Agency Strategic Plan, Annual Performance Plan; and Annual Performance Report) are easily generated from the information

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1 The views expressed in this paper are those of the author. They do not represent official policy of the U.S. Agency for International Development (USAID).
flows that are already part of the resource allocation process.

- Operating in many rather than few countries calls for establishing regional bureaus, but does not otherwise affect the basic model. However, where GPRA reporting is concerned, we now face a problem of “compactness” in our reporting. This is only a reporting problem, and not a management problem. Indeed, it is only a presentational problem. We can still report expected and actual results and link results to resources—but not compactly.

- Similarly, adding other broad foreign policy goals (not only development, but also transition from Communism and crisis prevention and recovery) calls for several straightforward adjustments, but does not otherwise affect the basic model. It is important to have a separate funding account for each goal. Otherwise, the key assumptions still hold for the most part, and the basic approach to resource allocation remains appropriate. GPRA reporting is still straightforward, though not compact.

- Discriminating among countries and regions according to general foreign policy importance is readily accommodated, without significant impact on the basic model or on GPRA reporting.

- Introducing specific foreign policy concerns (e.g. mid-East Peace, transition from apartheid in South Africa, infectious diseases, climate change, a fresh start in Nigeria or Bosnia) raises basic issues for the model, because this complicates the structure of goals. More specifically, goals become not only numerous but also dissimilar, calling for separate and different strategic approaches. However, if these specific foreign policy concerns can be funded from a separate/special account, then the basic model still holds for other broad goals and accounts. GPRA reporting would remain straightforward for the other accounts, and for the special account would depend on the nature of the specific foreign policy goals.

- The impact of functional earmarks for the development account depends crucially on the breadth, size, and number of earmarks. A few broad earmarks along the lines of “functional” accounts (agriculture, education, basic health, etc.) have relatively little impact on the model, except for some reduction (of uncertain magnitude) in the capacity of the Agency to maximize results. However, the more numerous, large, and narrowly defined the earmarks, the more disruptive to strategic planning and management. As with specific foreign policy concerns, such earmarks call into question the goals the Agency is supposed to achieve.

Finally, we discuss an alternative model—strategic planning based on clusters of similar programs. To clarify the issues, we assume that program clusters reflect a number of fairly narrow and large earmarks. The paper briefly presents a model for strategic management based on such program clusters. It then discusses the main issues surrounding such an approach. Assuming that the initial basic assumptions hold, managing by large and narrowly defined program clusters significantly diminishes aid effectiveness and results. It thereby significantly weakens the links between foreign aid and the national interests, and also substantially undermines U.S. leadership in the development community and more generally. The paper concludes with observations about the importance of accurately and precisely identifying goals before debating approaches to strategic planning and management.

**WHAT IS MEANT BY “STRATEGY”?**

My dictionary defines strategy as “a plan, method or series of maneuvers...for obtaining a specific goal or result”. It provides a specific definition for the military—“in military usage, strategy is the utilization of all of a nation’s forces through large-scale, long-range planning and development, to ensure security or victory.” [1,p.1298]

These two definitions suggest several key features. First there’s a specific goal, which may nonetheless be broad and multifaceted (“security”). Second, the strategy includes a set of actions that deploy resources to achieve the goal. This hints at the idea of some kind of “transformation function” that relates ends and means, and translates resources into results. This in turn suggests an efficiency criterion—that maximizing results and/or minimizing costs ought to be important.

In applying either definition to an agency that provides foreign aid, we need to make allowance for our particular goal or result—development. This goal is relatively well defined, and also fairly broad. More importantly, it results primarily from the actions of others—it is recipient countries that achieve or fail to achieve these goals, and our goal is to help and support their positive efforts. If the goal is couched as development, it is clearly beyond our manageable interests. If the goal is couched as make the greatest possible contribution to development progress (given available resources), that is more specific and controllable.
Building on the definitions from the dictionary, consider the following hypothetical definition for **strategy** in the context of foreign aid and development:

“a comprehensive, long-range plan or method for using available foreign aid to make the greatest possible contribution [and/or provide the greatest possible support] to development progress.”

This definition incorporates many of the elements of the other two. Like the military definition, it refers to resources; to comprehensive (or global) planning; and to long-range planning. The biggest distinction is in the goal, and it is not simply the difference between security and development. First, we talk about contribution to development acknowledging that development progress is mainly a function of what recipient countries do and not of foreign aid. Second, we explicitly introduce the idea of optimizing, or achieving the “greatest possible” results.

The basic model set forth below arguably fits this definition.

**THE BASIC MODEL**

Assume our mission is “development”. Assume the developing world is made up of only a few (e.g. four) relatively poor countries. We provide development assistance to these four countries from one funding account (“development assistance”) with no earmarks or directives.

Other important assumptions that underlie the model include the following:

- **Development progress in poor countries is in the national interest** and supports broad U.S. economic, political, and security goals. Countries that make development progress are better economic partners; less likely to cause security or stability problems; and more able and willing to cooperate on international issues of concern to the U.S. and others.

- **Countries are the fundamental unit of analysis.** Development progress is mainly “by, for, and about” countries and the people within those countries. Further, the focus on countries fits best with the story we tell about why and how development progress is in our national interests—it is countries that are good economic partners, less likely to cause security problems, more likely to cooperate, etc.

- **Development progress is first and foremost the result of country self-help efforts.** The role of foreign aid is supportive, perhaps catalytic, but not basically causal.

- **Progress in one country is largely separate and independent from progress in another**, in the sense that (as seen at the end of the 1990’s) Chile, India, and Uganda can make substantial progress while neighboring Argentina, Pakistan, and Kenya flounder.

- **We are guided by a “general development strategy” (GDS)—a broad analysis or set of propositions about the nature of the development challenge; what countries need to do to make progress; and how donors can help. Policy analysis, evaluation, and other analysis of experience inform the “GDS”.** (For broad examples see [2], [3], and [4].) From the GDS can be derived a “strategic framework” with (say) four “goal areas” reflecting four dimensions of development (without loss of generality, call them Economic Growth, Democracy/Governance, Human Resource Development, and Environment); and broad policy that explains best practice and best approaches within each goal area based on evaluation and lessons learned. Policy would define a framework of objectives and approaches for each goal area as in USAID’s current strategic plan and framework.

- **There are important linkages and interdependencies between the various goal areas.** Progress in one area tends to reinforce progress in another.

- **Country context really matters.** The “general development strategy” will be applied and implemented quite differently in different countries, depending on the country circumstances, needs, and opportunities. Thus, the “general development strategy” by itself is largely a framework—a set of general statements about ends and means. It is not a blueprint and it does not determine how resources should be allocated.

- **USAID resident missions can manage for results.** For a given resource level they can devise and implement country assistance strategies to achieve results that contribute to development progress, all within the framework of the GDS. They can link resources to these results.

- **Partnership, participation, and ownership matter.** For aid to be effective and achieve results it is important for country assistance strategies to be worked out in genuine collaboration with the recipient country.

The “strategic challenge” for the agency is to allocate resources both among countries and within countries so as to maximize USAID’s contribution to development progress.

How are resources allocated to maximize results? How do
we manage strategically?

• The first task is to allocate among countries. We make a preliminary or indicative allocation to each country, based on need (i.e., level of development, as indicated by per capita income and various social indicators), commitment (as evidenced by actual self-help efforts, particularly economic, political, and social policy performance), and population size. This approach reflects accumulated wisdom on how to maximize aid effectiveness (e.g., see Assessing Aid.) In particular it reflects the finding that the main determinants of aid effectiveness are recipient policies and other self-help efforts. It also reflects the value that (other things equal) aid should be focused on relatively needy countries. (In fact, country need and commitment have long been emphasized as allocation criteria in the Foreign Assistance Act.) Population is essentially a scaling factor.

• On the basis of this preliminary allocation, each mission devises a country assistance strategy. The strategy is based on the “general development strategy” and related policy guidance (about when, whether, and how various interventions can yield results). It aims to maximize results in developmental terms, taking into account specific country circumstances, needs, and opportunities; activities of other donors; linkages and interdependencies among the goal areas; and past programmatic experience and results in the country. The strategy tailors interventions to local circumstances and is developed in a participatory fashion that aims to promote partnership and local ownership.

• We can assume that each country assistance strategy has the mission operating in each of the goal areas. Looking at a given goal area (such as economic growth), the four country programs might feature widely varying resource levels (reflecting different country situations, needs, and opportunities) and somewhat different activities (say an emphasis on agriculture in one country, trade and investment in another, financial sector in another, within EG). For each goal area, each mission sets up one or more strategic objectives (SO’s), with targets, indicators and resource levels.

• AID/W reviews the strategies and targets and makes some adjustments among the country and SO funding levels based on the quality and soundness of the strategies and expected performance and results.

• Assuming none of the basic allocation factors (particularly commitment, since need and population [compared to other countries] are relatively stable) or other country circumstances change radically, and assuming stability in overall budget availability, country budget levels continue to be adjusted from year to year based on analysis of performance and results. This analysis of performance takes into account that results are easier to achieve in advanced countries than in very poor countries, and does not “over-reward” good program performance in advanced countries. More generally, the links between results and adjustments in resource allocation should be based on analysis rather than on simple rules such as the better (worse) the results, the more (less) resources.

• When “need” reaches a certain threshold—when a country reaches “advanced” status as signaled by economic and social indicators—a country is to graduate from foreign aid.

• If “commitment” in one or more countries shifts significantly, some reallocation of aid (among countries) would be in order and a country strategy might need reexamination.

Salient Features

• In this model resources are allocated both across countries and within countries so as to maximize results, defined in terms of the contributions of aid to development progress. In that sense, resources are allocated “strategically”.

• The center plays the lead role in deciding the allocation of assistance across countries.

• For each country, the mission plays the lead role in determining the allocation of resources among goal areas and activities, with strategies subject to review and approval by AID/W.

• The allocation of assistance across goal areas is basically determined by summing over (approved) country strategies rather than by some central allocation process. Similarly, strategic planning targets (or performance goals) are proposed by operating units and reviewed and approved by the center.

• The center influences these strategies ex ante by policy (based partly on evaluations) that provides guidance about how most effectively to achieve development results and what sorts of programs and approaches are most important. The center also reviews the strategies for conformance with policy and makes adjustments in funding based on analysis of the strategies and review of expected and actual
program performance and results. The center approves targets (results) sought by the operating unit.

An approach whereby resource allocation within countries is decided in a decentralized way (i.e. by resident field missions) is justified by assuming that the “transformation function” that translates resources into results is complex and varies from country to country, so that the field has a much better understanding of that function than the center. In contrast, if the center had perfect (or equal) knowledge, then all resource allocation could be done from the center. The more complex and different the country-specific transformation functions, the less likely the center knows as much as the field. The more similar and simple are the transformation functions, the more likely that the center can efficiently determine the best allocation patterns within countries.

Reporting

In this context we can readily explain to Congress, OMB, and others:

- the allocation of resources across countries, including the role of need, commitment, population, and program performance and results in determining these allocations;
- the allocation of resources across goal areas (based on country strategies);
- the results we aim to achieve, disaggregated by country, goal area, and strategic objective;
- the links between resources and results (insofar as these are established in the country assistance strategies, and more generally in the GDS and associated policy).

Over time, for each operating unit strategic objective we can report actual outcomes against targeted results. Performance reporting would be organized by country (given that the country is the natural unit of analysis and there are only four countries), and could also look at the pattern of performance by goal area.

What about program clusters? Policy (beginning with the GDS) that defines a framework of goals, objectives, and approaches in principle starts to give rise to broad program clusters, i.e. groupings of programs that are more or less similar from the standpoint of the results they are trying to achieve. However, with only four countries; with both goal areas and potential programs within goal areas defined broadly; and with programs tailored to country circumstances, needs, and opportunities, program clusters would not emerge in this basic model.

Similarly, the program accomplishments in a particular goal area almost certainly could not be added up across the four countries. Results could be added up only if it happened that programs within a goal area were virtually identical.

Conclusion/Claim

This approach to resource allocation conforms to best development practice. It is an efficient and transparent results-oriented management system. It is “strategic” in that it allocates resources with the aim of maximizing results in terms of our development goals. It takes into account both program performance and country policy performance (commitment). Results reporting is straightforward and results can be linked to resources. It is completely in the spirit of GPRA. It balances central policy direction and review with decentralized responsiveness to local conditions, needs, and opportunities.

THE BASIC MODEL WITH THE INTRODUCTION OF GPRA

Suppose that we are now asked to do a strategic plan, an annual performance plan, and an annual performance report. Compliance would be straightforward:

- The Agency Strategic Plan would be built up from and organized around the four country strategies. Our overall mission is development. At the next level down our four strategic goals are development progress in country A, in country B, in country C, and in country D. For each of these countries/goals our strategic objectives and performance goals would be those from the country strategies.

- The annual performance plan and annual performance report would have a chapter or section for each country. (Recall that the four strategic goals are development progress in each of four countries, reflecting the conviction that development happens at the country level, and that the individual country is the key unit for analysis). Within each chapter, the performance goals, targets, indicators, and resources for the strategy would be discussed.

- There is no reason to expect that performance results could or should be aggregated or rolled up by goal area. Instead, the links between our program results and development progress at the country level would be documented (but not measured or quantified) in each Country Assistance Strategy and more generally in the GDS and associated policy.
Results and resources would be clearly linked.

Salient Features/Reporting

The GPRA products (ASP, APP, and APR) do not change the underlying approach to management and resource allocation. Instead, the GPRA products are simply reporting tools, for a management system that was already strategic and results-oriented. With or without the GPRA products, program performance is taken into account appropriately, both in formulating country strategies and in adjusting allocations. At the same time, other important factors that influence results (need, commitment, and population) play a major role in allocations across countries.

Conclusion/Claim

This management system conforms well both to best development practice and to GPRA requirements.

OPERATING IN MANY RATHER THAN FEWER COUNTRIES

What if we operate in many rather than only a few developing countries (with correspondingly more money)? Suppose that instead of four countries we provide aid to (say) seventy-two developing countries, eighteen per geographic region. We assume that the “general development strategy” remains valid and that the other key assumptions continue to hold.

• The agency arguably needs to make only ONE adjustment to its management and operating procedures. It creates four appropriately staffed regional bureaus, to facilitate the task of strategy review, performance monitoring, and adjustment of budgets. The underlying rationale is twofold. First, we assume that one bureau can readily oversee eighteen strategies but not (say) 36 or 72. Second, we assume that countries in a given region bear some similarities to one another and dissimilarities to countries in other regions so that there are efficiencies to managing by region where learning and comparison are concerned.

• Otherwise there is no need to change the management and operating procedures described above. The budget allocations to each region would be based on the indicative budget allocations to countries, reflecting allocation criteria (need, commitment, and population) that are commonly applied across countries and regions. Adjustments to these allocations on the basis of program performance would be carried out within regions, but not across regions. The underlying reasoning is that program performance on an annual basis will not vary systematically across regions in ways that would dictate regional adjustments. Country strategies in each region would still be guided by agency-wide policy.

• What about program clusters? With seventy-two country strategies formulated within a common strategic framework and (say) at least one activity in each goal area per country, broad program clusters should start to emerge. These would correspond to the agency objectives and approaches in the strategic framework and related policy guidance; and to mission decisions (within that framework) about the best possibilities for achieving important results and associated funding requests. For instance, for economic growth there would likely be numerous programs in agriculture, in trade and investment, and in financial markets. However, “best practice” (as reflected in the basic assumptions) still dictates that these programs would be tailored to individual country circumstances (including activities of other donors), particularly where policies and institutions are concerned (which are themselves diverse). Therefore program activities within a cluster would probably be far from identical, especially across regions.

• Accordingly, at this broad level of program clusters, it is extremely unlikely that common indicators of program performance and results would emerge. Similarly, it is unlikely that a meaningful aggregate target for a program cluster would be feasible.

• Nonetheless, the Agency (or regional bureaus) would still manage across program clusters in several important respects. The volume of activity in each cluster would guide technical staffing decisions. Activities within goal areas and clusters would continue to be guided by Agency policy. Regional bureau technical staff would be expected to be able to monitor and evaluate program performance in their areas of expertise, even without common indicators, and make recommendations about resource allocation based on judgments about program performance.

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2 Program performance might well be systematically better in a developing region with many advanced developing countries (say Latin America) compared with a region with many least developed countries (say Africa), since “advanced” developing countries (by definition) have better institutions, human resources, financial resources, etc. These factors make it easier to achieve results in advanced countries than in poorer ones. However, to favor such countries in resource allocation would be to undermine “need” as an allocation criterion. For similarly needy countries—countries at similar levels of development—program results should be mainly a function of recipient self-help efforts, which are taken into account by “commitment”.
Periodically, *impact evaluations* would focus on program clusters (e.g. “Girls Education”) and examine experience, lessons learned and best practice. Across regions, one would expect less commonality in programs. For instance, agricultural challenges can vary considerably from region to region. The exception to this tendency might be programs based on human biology (health, population) which is universal.

**Salient Features**

- This is still a results-oriented management system—based on best practice—that is completely in the spirit of GPRA.

- However, where GPRA reports are concerned we now face a major problem—how to write a *compact strategic plan*, *annual performance plan*, and *annual performance report*. Instead of four goals (development progress in countries 1-4) we now have 72 goals (development progress in countries 1-72). These are truly separate and distinct goals insofar as there is not much interdependence between development progress in one country and development progress in another, especially since development progress is seen as mainly a function of recipient policies and self-help efforts. (Recall the basic assumptions.)

- The problem here is *not* a management problem, nor a strategic problem, but essentially a communications problem. The agency can readily manage 72 country programs strategically and efficiently (in the sense of allocating resources to maximize development results) along the lines described above.

- Where reporting is concerned the agency can readily report on program performance across seventy-two countries and four goal areas. But—with diverse programs tailored to country circumstances—it cannot do so *compactly*. The main issue raised by operating in many rather than few countries is essentially the *presentational* issue of how to report results in a “digestible” way.

- The basic options are to organize reporting by region or by goal area. In 1997 USAID opted to organize the GPRA products (ASP, APP, APR) around goal areas and agency objectives rather than around countries and regions. Partly this was because the 1994 “Strategies for Sustainable Development” [2] and the associated “Strategic Framework” were on hand when it came time to write the 1997 Agency Strategic Plan. But, these were always fundamentally *policy* documents, and not programming, planning, or management documents (except in the sense that we manage in part by policy). They were never meant to dictate resource allocation, except insofar as policy (e.g. “within basic education, investments in primary education tend to yield the highest returns. Therefore USAID will focus first and foremost on universal access to quality primary education”) dictates resource allocation.

- Further, USAID believed that reporting by goal area (and by objective and program cluster within goal areas) better conveyed a sense of what our programs aim to accomplish and how—it has been seen as a better way of “telling USAID’s story” and communicating USAID’s value-added to larger development goals. The high scores that USAID has received on its past several performance reports (first and third among government agencies the past two years) tend to validate this judgment.

**Conclusions/Claims**

In this expanded model resources are still being managed strategically to maximize the contribution of foreign aid to development progress. The agency can still carry out essential reporting tasks. However, it faces a challenge of communicating results in a compact fashion.

More generally, this extension of the model reinforces the distinction between managing and reporting. Further, it introduces a distinction between *fundamental reporting issues* (do we have results to report) and *presentational issues* (can we report them compactly).

**INTRODUCING FOREIGN POLICY CONSIDERATIONS BESIDES DEVELOPMENT**

Foreign policy concerns vary widely. They range from *broad goals* that are somewhat distinct from development (such as transition from Communism and crisis prevention and recovery) to the *relative importance of particular countries to specific foreign policy concerns* that may be more or less related to development. These are discussed in turn.

**Broad foreign policy goals such as transition from Communism (“Transition”) and crisis prevention and recovery (“Crisis”)**

Broad foreign policy concerns such as transition and crisis arguably constitute large, separate and distinct goals for USAID (alongside development). Though recipient institutions and institutional development are central to each of these challenges, in many respects they are different. With different goals, it becomes important to have separate accounts (as we have for countries making
the transition from Communism) to fund programs under each goal.

Apart from this, introducing crisis and transition calls for only modest departures from the “best practice” model described above. Countries are still the basic unit of analysis where crisis and transition are concerned. More generally, the key assumptions (listed earlier) continue to hold in large measure. Initially allocating resources according to need, commitment, and population is still appropriate, except that need and commitment should be defined and gauged somewhat differently. Regional bureaus, country strategies and results frameworks are still called for.

**Transition from Communism** mainly concerns the countries of Eastern Europe and the former Soviet Union, which are geographically distinct from “the third world” of developing countries. Further, the challenge is largely one of transforming economic and political institutions from those associated with Communism to those associated with markets and democracy, while maintaining already impressive social indicators (e.g. basic health, basic education, and fertility). Admittedly, some formerly Communist countries are low-income countries (for 2003, Georgia, Azerbaijan, Moldova, Uzbekistan, Kyrgyz Republic, and Tajikistan) and a few others are lower-middle income.

It remains important to allocate funds for transition on the basis of need, commitment, and population. But “need” in formerly Communist countries is not well measured by the usual development indicators for health and education, and indicators such as per capita income can be misleading. Need is more a matter of how deeply embedded are/were Communist institutions—a function more of history and location than per capita income. Similarly, the most important indicators of commitment (policy and institutional self-help efforts) might well be different.

**Crisis** usually pertains to developing countries (especially relatively poor developing countries) and countries making the transition from Communism. The salient problem is not simply the existence of forces for conflict (which are present in many if not most countries), but more importantly the **limited capacity of national institutions to manage and contain conflict**. The goal is typically to get such countries back onto a steadier development or transition track. The sorts of activities and interventions that are appropriate in more stable settings often don’t make sense in these countries. Again, some sense of need and commitment to self-help efforts is important to guide resource allocation. But need and commitment would be gauged using different indicators than for developing or formerly communist countries. Judgment would surely play a much heavier role relative to objective indicators.

While most of the important assumptions hold, two become somewhat “iffy”. First, it may be less true that “performance” in one country is independent of performance in other (neighboring) countries. Spillover effects may be significant. Second, there is so far much less of a general strategy for crisis prevention and recovery—to guide country-specific efforts—than for development. We have much less in the way of a general “crisis” model based on robust lessons learned. This does not invalidate the basic model for strategic planning and management. For instance, it is still important to have an assistance strategy for each country that aims to achieve results. But, it will be more difficult to formulate and appraise country assistance strategies in the absence of a general model/framework for crisis prevention and recovery.

USAID’s current strategic framework of six goal areas (economic growth, democracy/governance, health, human capacity development, environment, and humanitarian response) is broad enough to cover all three concerns (development, transition, crisis) since it includes a goal for humanitarian assistance, as well as democracy/governance and economic growth goals that encompass the main concerns of transition. However, it would make more sense to have a general strategy and strategic framework specific to each broad goal (i.e. one for development, one for transition and one for crisis). Similarly, it would make more sense to report results separately for these separate goals.

In principle it is important to have separate funding accounts for development, for transition from communism, and for countries in crisis. Where the same funding account (Development Assistance) is used for two goals (development, and for countries in crisis) it is difficult to determine and justify the allocation of aid among countries, since there are few common criteria. For instance, increased assistance for Zimbabwe (a relatively small, relatively less needy [by African standards], relatively uncommitted country that is crisis-prone) comes at the expense of assistance to larger, needier, and more committed developing countries where lasting development results can be more surely achieved.

It arguably makes sense for a “traditional” development agency that is “newly” concerned with transition from communism and with crisis to continue to **operate on a regional basis** (as described above). First, most of the countries making the transition from Communism are in one (large) region. Second, the goal where crisis and conflict are concerned is to get countries back on a more stable development track (or transition track), so that an African country that emerged from crisis and conflict (e.g. Rwanda, Ethiopia) would rejoin its African peers. Finally, institutions loom large in each of the three challenges, and
there is arguably significant commonality among institutions within regions and significantly less commonality across regions.

Introducing transition and crisis as goals separate from development tends to further call into question the issue of program clusters, and certainly the idea of common indicators and targets. For a given program cluster, the range of activities within the cluster will tend to become wider, the greater the difference in broad objectives. For instance, privatization has turned out to be a very different challenge in formerly Communist countries compared with developing countries. More generally, concerns such as economic growth or democracy and governance are approached quite differently depending on whether the challenge is development, transition, or crisis.

**Foreign Policy Importance of Particular Countries**

Another kind of foreign policy concern is that—where broad goals such as development, transition, and crisis are concerned—some countries matter more to the United States than others do. For instance, development in small Central American countries is a greater priority than in a number of comparably small African countries,

Where the general foreign policy importance of countries is concerned, there are classifications for core staffing purposes that reflect the range and intensity of foreign policy interests, and thus (to an approximation) the relative importance of various countries. It is straightforward to use these classifications in the initial allocation process, along with need, commitment and population.

In principle, this would be at some cost in terms of the simple objective of maximizing purely development results. Alternatively it could be reasonably be seen as indicating that development results in some countries are valued more highly by the USG than the same development results in others.

An empirical analysis indicated that using these ratings did not introduce large distortions compared with a pure development model, insofar as many of the countries that rank high on development criteria (need, population, commitment) also rank high in foreign policy importance. If these results continue to hold, it would indicate that introducing considerations of the foreign policy importance of countries would call for a relatively small adjustment in the allocations of the “basic” model, and would therefore generally not cost much in terms of pure development results.

Country-specific earmarks and regional earmarks are another way of incorporating considerations of general foreign policy importance. As long as the goals for countries and regions remain the broad ones discussed above, the basic model still works. It is when the goals start to vary that the model starts to break down.

**Special foreign policy concerns related to particular dimensions of development**

Foreign aid is often used to address a range of specific foreign policy concerns that bear some relation to development, but are important in their own right. Examples include peace in the Middle East and the Balkans, transition from apartheid in South Africa; a “fresh start” in countries like Nigeria, Democratic Republic of the Congo and Serbia; and global issues such as global warming, biodiversity, and infectious diseases. All the while assuming that development is an important foreign policy concern, we have often seen special priority attached to one or another dimension or aspect of development.

Introducing these sorts of concerns causes some basic problems for the model and for strategic management more generally. The fundamental issue is one of goals—these concerns represent distinct goals. Distinct goals call for distinct strategies and strategic approaches; different allocation criteria; and different approaches to achieving results. The basic assumptions of the general model no longer necessarily hold.

Does this invalidate the basic model for strategic management developed so far? Not necessarily. There is one simple adjustment—already somewhat evident in practice—that “rescues” the model. Simply create a separate special account—like the current “Economic Support Funds”—and manage it separately. This would call for subdividing that account according to the specific foreign policy concern, and then managing each portion as befits the particular concern. For instance, funding for “country” problems (Mid-East Peace, transition from apartheid, fresh start in Serbia) would be associated with a set of country strategies reviewed by the relevant regional bureau, whereas funding for biodiversity or infectious diseases would be managed in a more centralized way.

As long as we can separate “special foreign policy concerns” (and the associated funding, management, and reporting) from our broad goals, we can still operate strategically and manage for results. This example illustrates a more general point—to manage strategically it is important to “isolate” goals and “isolate” funding for each goal. We cannot “strategically” or efficiently pursue multiple goals with the same dollar.

**INTERIM SUMMARY**
Up to this point the basic best practice model still works fairly well. Adding GPRA and incorporating many rather than few countries calls for only minor adjustments for strategic management, although reporting in a compact way becomes problematic with many countries.

The basic model continues to hold up well if we expand the foreign aid mandate to include the broad objectives of Crisis and Transition. It still makes sense to operate on the basis of regional bureaus and country strategies. But it becomes important to have a separate funding account for each of the three broad objectives, and to approach “need and commitment” somewhat differently in allocating funds across countries. For the allocation of resources within countries, it helps to have a distinct general strategy and strategic framework for each of the three broad foreign policy goals—development, transition, and crisis. (For transition, see [5].) Allocations within countries would still primarily depend on strategies formulated by resident missions that are sensitive to country-specific needs, opportunities, and circumstances.

Considerations of the general foreign policy importance of specific countries and regions can readily be incorporated.

Adding additional, specific foreign policy concerns starts to create significant problems for strategic management, because this essentially means adding goals that call for their own, often different strategic approaches. However, if a separate funding account can be established for these concerns, then the basic model for strategic management still works for the remaining goals and accounts.

FUNCTIONAL EARMARKS

Functional earmarks dictate that a certain amount or percentage of available funding (e.g. Development Assistance) be spent on a specific kind of program (e.g. family planning). In principle functional earmarks have costs in terms of foregone development results to the extent that they lead to different allocations to functional program areas (and to countries) than would result from country strategies aimed at maximizing results based on unrestricted funds. In other words, if we make an allocation based on maximizing development results, and then have to adjust the allocation (across activities and countries) to accommodate one or more functional earmarks, the cost in terms of foregone results would be greater or less depending on the size of the change in allocation patterns.

The cost in terms of foregone development results is partly a function of the breadth or narrowness of the earmark, and partly a function of the size of the earmark relative to what would be unconstrained funding for the earmarked activity. For example, a broad earmark for financial sector development or agricultural development would call for a smaller change in allocations than the same sized earmark for microenterprise lending (a part of financial sector development) or agricultural research (a part of agricultural development). On the second point, an earmark that simply maintains unconstrained expenditure levels for a particular activity would have much less impact than an earmark that doubles or triples unconstrained expenditure levels.

Functional earmarks can impair development results through several channels. First, country strategies and strategic objectives must increasingly take into account the need to absorb earmarks, with correspondingly less emphasis on country commitment and country-specific needs and opportunities. More generally, earmarks (to the extent they are both narrow and large enough to substantially alter resource allocation) fundamentally undermine the idea of a country assistance strategy tailored to local circumstances with substantial local ownership and participation.

Even with functional earmarks, as long as the aid agency has some significant degrees of freedom in resource allocation among activities, it is still best practice to try to maximize results (subject to the constraint of meeting the earmarks) by encouraging resource allocation across countries according to need, commitment, and country performance, and resource allocation within countries based on country strategies and program performance.

The implications of functional earmarks for program clusters depend on the size and narrowness of the earmark. A small earmark will not yield much in the way of a program cluster. A large but broad earmark (e.g. agriculture, basic education) could generate a large, broad program cluster or perhaps a series of more specific program clusters. A large earmark for a relatively narrow range of services or commodities generates a correspondingly specific program cluster. Indeed the interest in managing by program clusters has been largely generated by experience with relatively large, relatively narrow earmarks in family planning and health assistance.

In theory, the more narrowly defined the program cluster—in particular the more it involves delivery of a homogeneous good or service—the more feasible are common indicators that can be aggregated, and can serve as the basis for a target for the program cluster. In reality, the complexity of achieving results in country specific circumstances could result in an unduly narrow earmark becoming simply a commodity or service drop that provides short-term benefits with little lasting impact.

As with specific foreign policy concerns, introducing a
number of large and narrow earmarks calls into question the goals that foreign aid is supposed to achieve. Instead of aiming to make the greatest contribution to development progress, the implied goal is to support progress in selected aspects of development. (e.g. child survival and family planning.) The next section discusses strategic planning for this quite different goal.

AN ALTERNATIVE MODEL: STRATEGIC PLANNING AND MANAGEMENT BASED ON PROGRAM CLUSTERS

The popular alternative model for strategic planning and management is to plan and manage around program clusters rather than by countries as in the basic model. This view is encouraged by the basic structure of “strategic goals” and objectives contained in USAID’s strategic plan, not to mention by the earmarks and directives that characterize development resources.

The following provides a brief sketch of what this model might look like. USAID would define clusters of programs, presumably bearing a close correspondence to existing large earmarks and directives. With guidance from the Administration and Congress, USAID would define resource levels for each cluster, within an overall budget. The technical group associated with each cluster would make recommendations about resource allocation on the basis of perceptions and judgments about where the resources could be most productively used. Such allocations might be “indicative” in the sense that missions could respond and request different mixes of funding. However, the very nature of earmarks and directives suggests that supply exceeds demand, and missions must absorb more funding for earmarked activities than they would request if they were maximizing results without constraints. Over time, the allocations of earmarked funds could be adjusted to reflect program performance and results, with more funds going to countries that could best absorb and utilize the particular resources.

Appraising the model

This model certainly appears to be “strategic” in that it allocates resources to achieve goals. The main issue has to do with the goals that are being pursued and achieved. The overarching goal of the Agency would be more precisely expressed as progress in selected aspects of development.

Under fairly reasonable and well-accepted postulates about aid effectiveness it is pretty clear that this model does not maximize the contribution of foreign aid to development.

The postulates are those underlying the basic model.

a. First, for allocations of aid among countries the key criteria for maximizing aid effectiveness are need, overall commitment, and population. (Commitment has to do with policies and institutions, based on an understanding that these are fundamental determinants of development progress)

b. Second, within a given country the optimal allocation of aid among activities depends on a host of factors that are specific to the country and are much better evaluated on the ground than from the center. These include country specific needs, circumstances, and opportunities, synergies among different activities, and efforts of other donors.

c. Third, to be effective aid programs and strategies need to be formulated based on participation and ownership by the aid recipient.

d. Fourth, in taking account of program performance in allocating resources, it is important to remember that program results are more easily achieved in more advanced countries, because they have better institutions and human resources. This, however, tends to conflict with need criteria.

How does the model of planning and managing by program cluster (of predetermined resource availability) stack up against these “postulates”? Much depends on how broadly or narrowly the program clusters are defined, e.g. a program cluster for financial development versus a program cluster for microenterprise lending; or a program cluster for agricultural development versus one focused on agricultural research. The more broadly the program cluster is defined, i.e. the greater the flexibility for tailoring programs within a country to local conditions and circumstances, the closer the model gets to maximizing aid effectiveness.

To highlight the issues assume that the program clusters are microenterprise lending, family planning services, a narrow range of “Child Survival” health interventions, and food aid for humanitarian purposes. We assume further that all are intended to satisfy unmet need for the specific services and for food.

Allocation of assistance among countries:

- In all cases population size would be important as an allocation criterion.

- In most cases country need would also be an important criterion, insofar as the goods and services are mainly poverty oriented. Holding population size constant, need would be greater in poorer countries (with the possible exception of family planning, where
unmet need is not necessarily correlated with level of development).

- However, program performance might militate against need, insofar as absorbing many of these goods and services might happen more easily and efficiently in less needy countries, with stronger, better established delivery systems.

- Where commitment is concerned, there is little evidence (e.g. from efforts by technical groups to allocate resources associated with program clusters) to suggest that overall country commitment (policy and institutional self-help efforts) would play an important role in allocations across countries. At best, self-help efforts in the specific activity might be considered, and these might correlate with overall self-help efforts.

### Allocation of assistance within countries

- There is little reason to believe that an assistance program based on these four program clusters would be optimal from the standpoint of specific country needs and opportunities, other donor activities, etc. As a general proposition, narrowly defined program clusters determined in the donor capital would stand only a small chance of matching the top foreign aid priorities in a given country. This is all the more apparent if the criteria for choosing the program clusters are political.

- As a more specific proposition, neither these nor other plausible program clusters (as defined by typical earmarks and directives) tend to address the policy and institutional issues that are generally considered most important for development progress.

### Participation and Ownership

With country programs essentially comprising a narrow range of activities determined on an a priori basis from the donor capital, there is correspondingly little scope for recipient participation and ownership.

### Program Performance as an Allocation Criterion

As mentioned above, pressure to program these goods and services at earmarked levels might well lead to an undue focus of aid resources on relatively advanced countries with better delivery systems. Possible examples include family planning services in Brazil, Mexico, Colombia, and Turkey; and microenterprise lending in more advanced LAC countries.

It is perhaps worthwhile reiterating that all of these problems become less acute, the more broadly the program cluster is defined. Program clusters defined broadly to cover a wide range of possible interventions in financial markets, health, population (including the various determinants of fertility such as girls’ education), and food security could readily overcome most of the problems cited above.

### What is getting maximized?

The program cluster model described above clearly does not maximize the contribution of foreign aid to development progress, especially if the program clusters are defined narrowly. Nonetheless it could still be regarded as “strategic” with a different goal or objective, e.g. “maximize the contribution of foreign aid in selected aspects of development” (e.g. satisfying unmet need for contraceptives or food). If this were the goal of the agency, then the program cluster model arguably represents a reasonably strategic way of managing.

### What’s the problem?

The basic problem with the modified statement of our goal (maximizing the contribution of foreign aid in selected aspects of development) is that it undermines the links between foreign aid and the national interests, especially if the “selected aspects of development are narrowly defined. The argument about development and the national interests is that general development progress by poor countries serves our broad economic, security, and political interests. The argument is not that increased delivery of selected services and goods in a developing country serves our broad national interests. With narrowly defined program clusters it is hard to make a convincing and honest case that foreign aid effectively promotes development and therefore serves the national interests. It is also difficult for a donor with such an aid program to have a legitimate claim to leadership within the donor community.

### CONCLUDING COMMENTS

This paper presents two models for strategic management and planning in the context of foreign aid for development. The “basic” model corresponds to a goal of maximizing the contribution of foreign aid to development progress. The “alternative” model—based on program clusters—fits with a goal of maximizing the contribution of foreign aid to selected aspects of development. If the “aspects of development” and the associated program clusters are narrowly defined, then the two goals diverge sharply in terms of the results they achieve, and their links to broad national interests including U.S. leadership in the development community.
More generally, the discussion suggests that underlying different approaches to strategic planning and management are important differences in goals. To have a productive discussion about what approach to strategic planning and management makes the most sense, it is critically important to be clear and precise about the goal or goals to be achieved. While some goals (development, transition from communism, crisis prevention and recovery) may call for broadly similar strategic approaches, other goals may not.

REFERENCES