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IMPACT INVESTING FOR SUSTAINABLE DEVELOPMENT:

A New Framework for Providing U.S. Foreign Development

Prepared by

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ABSTRACT

IMPACT INVESTING FOR SUSTAINABLE DEVELOPMENT

The U.S. Agency for International Development (USAID) and the Department of State direct over 55% of U.S. foreign assistance, with an additional 26% managed by other U.S. Departments and agencies. These institutions apply 20th Century models and mechanisms to 21st Century development needs and lack an overarching philosophy consistent with American values.

Systemic change is needed if the United States is to have a sustained impact in developing countries. Elevating “Development” to be equal to and have a policy “voice” with Diplomacy and Defense is laudable, needed and commonly argued for in the development/policy community. Yet, equally, if not more, critical is reforming the philosophy, implementation, and administration of US foreign development.

Our present development effort is:

- Assistance-driven vs. investment-oriented.
- Dependency based vs. aimed at achieving self-sufficiency
- Project-based vs. focused on systemic, sustainable reform.
- Short term vs. long-term, lacking a maintenance-of-effort approach.
- Designed for immediate returns vs. long term sustainability.
- Delivering outputs (and maybe outcomes) vs. measurable impacts.

Moreover, our present implementation of development is:

- Focused on US providers vs. global partners.
- Hobbled by contract and procurement rules vs. governed by rules designed for success.
- Expensive, with most resources remaining in the US vs. cost-effective with the majority of resources spent in-country.
- Risk-averse vs. innovation-embracing.
- Prone to stove-piping resources, knowledge and staff vs. leveraging expertise across thematic (governance, health, education, etc.) sectors.
- Based on an inconsistent and short term allocation of resources vs. committed resources based on multi-year planning.
- Congressionally directed often reflecting personal or constituent priorities vs. Congressional support for field Mission strategic country goals.

“Impact Investing for Sustainable Development”

This Paper argues for re-conceptualizing US allocation of human and financial resources towards making an *investment* in a country’s democratic, social and market sectors. America’s development effort is not “assisting”, which most Americans see as charity, but investing in developing countries. It is in the US’s global and national interest to have stable, democratic, and economically secure nations in the developing world. A consistent philosophy and strategy to achieve this goal is vital to U.S. interests, values, and the well-being of American citizens.

Impact Investing for Sustainable Development reframes our development rationale, allocation of resources, and success indicators. It proposes an innovative approach to achieving systemic governance, economic and social reforms in developing countries by *directly* investing in the country’s people and organizations. It is a new approach for consistent, sustainable, systemic reform beyond the present hodge-podge assistance model with its cacophony of policy voices and uncoordinated, often inconsistent allocation of resources.

Impact Investing is premised on the well developed concept and application of social entrepreneurship, investing in social entrepreneurs to initiate systemic change. By stressing *sustainable development*, Impact Investing extends social entrepreneurship to the dimension of organizational sustainability, enabling in-country organizations to continue a programmatic mission with skilled local staff *beyond any specific grant period*. Impact Investing provides to the recipient governments and societies an investment in their people and organizations, creating new professions, employment and recurring social capital, expertise, and professional development. Impact Investing addresses the dysfunctional assistance model and presents a development design that embraces American values and Congressional interests.

This Paper also argues for greater use and integration of technology into development. Two of the most significant issues in development are: the acculturation, adaptation and application of existing knowledge; and, enhancing leadership and management expertise to design programs and manage organizations. There is a vital role for technology in elevating in-country capacity, addressing these critical needs. Moreover, technology, particularly innovations in the application of “crowd-sourcing” applied successfully by the private sector, provide development policy-makers, military officers in the field and USAID Mission Directors with the ability to introduce tested development programs from any where in the world.

Impact Investing for Sustainable Development integrates entrepreneurship, sustainability and technology into a new, robust 21st Century foreign development framework and strategy.

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f o r D e m o c r a t i c C h a n g e

IMPACT INVESTING FOR SUSTAINABLE DEVELOPMENT

I. CONTEXT

As a Woodrow Wilson Center Public Policy Scholar, Raymond Shonholtz conducted extensive interviews¹ between September 2008 and February 2009 with senior officials, congressional staff, academics, corporate leaders, and former and present foreign assistance personnel concerning the effectiveness of and the need for a new paradigm for foreign development, especially related to democracy and civil society development. In addition to favorable and constructive comments to the early drafts of this Paper by scholars and senior staff at the Woodrow Wilson Center, I am indebted to the comments received during public presentations of the concept of “Impact Investing for Sustainable Development.”

This Paper highlights the dysfunctional characteristics of current US foreign assistance policies and programs and focuses on a new approach: *adopting a philosophy of investing in in-country social entrepreneurs and organizations for impact reform and sustainability to achieve US goals.* The author has considerable experience and knowledge in this area, having founded Partners for Democratic Change, an organization that has established over the past 20 years 17 independent, national Centers on change and conflict management in developing societies.

The time is propitious. Drawing on new concepts of social investing, a rich culture of global learning and networking, and technology, the US can achieve a globally admired 21st Century development philosophy, strategy, and implementation agency.

II. REFRAMING DEVELOPMENT

Conceptually, foreign development is about using US taxpayers’ dollars to assist developing countries in achieving a broad range of Congressional and US Mission determined goals and strategic objectives. The concept of assistance unnecessarily confuses our genuine intent, as we are not so much “assisting”, as we are “investing” in the ability of developing countries to meet their present and future needs without depending on foreign experts or sustained US resources. An explicit investment strategy would build taxpayer and policy-maker confidence and support, achieve sustainable results, and promote a new, employable cadre of in-country professionals.

¹ This paper is the sole responsibility of the author. There is no attribution or reference to interviewees’ comments in the paper and they have not been asked to endorse the paper’s analysis or recommendations.

Invest in People: Under an investment strategy, we are investing in people, organizations, and institutions in developing countries to achieve sectoral results. The investment needs to be directed toward sustainability and continuity-of-effort to realize systemic reforms that can be measured, quantitatively and qualitatively. Avoided under this new framework are short-term, “one-off” projects that do not maintain effort, garner resources, or leverage results.

Current assistance projects often reflect one-off projects that are not sustainable, fail to continue an effort until measurable goals have been attained, and most often produce out-puts and perhaps outcomes, but few demonstrable impacts. As a result, taxpayers and policy makers have difficulty understanding what their “assistance” funds have achieved. An investment strategy capitalizes on maximizing in-country human and financial resources, using enhanced in-country capacity for sustained delivery. As any business person knows, *without building capacity, it is not possible to achieve sustainable delivery, as the former is the catalyst for the latter.*

USAID funded the American Bar Association (ABA) to implement the Central European and Eurasian Law Initiative (CEELI) Program, a 10-year justice reform effort, in Serbia. CEELI closed in 2008, dispersing a trained, professional Serbian staff. If organized for sustainability, its goal would have been to provide for the trained professionals to continue and complete the reform effort. While it maintained the effort, USAID did not strategize for sustainability, losing its most valued achievement: trained Serbian professionals dedicated to justice reform.

Achieve Sustainability: Under Impact Investing the donor(s) seek to build a sustainable organizational capacity that can maintain their funded programmatic effort, keep skilled staff together, and generate diverse streams of revenue. In funding a specific project, the donor(s) also fund the organization’s ability to develop products and services derived from the project and market them to other sectors of society.

In 1996, the Charles Stewart Mott Foundation awarded Partners for Democratic Change (Partners) a three-year, \$1 million grant to design a sustainability strategy for its independent, national Centers. Today, Centers are developed on a business model that stresses entrepreneurial organizational development and diverse revenue streams. Centers develop income-generating products, services, and programs from grant-funded projects, capitalizing on each Center’s unique staff expertise. Several Centers own their own offices and generate unrestricted revenues.

An entrepreneurial-oriented staff can promote organizational sustainability in many different ways. Training, consulting, and service delivery for diverse sectors and grant funded projects become part of the organization’s structure and culture. The most creative organizations use expertise derived from one project to like or different sectors. For example, training Georgian civil society organizations in communication and negotiation skills enabled Partners’ Georgian Center to create customer service training for Georgian bank personnel. A grant-based training in facilitation techniques for municipal officials enabled Partners-Slovakia to secure a contract to train corporate leaders in effective meeting and decision-making skills.

Under an *Impact Investing for Sustainable Development* framework, donors would provide organizations with sufficient funding to enable them to develop fee-based products and services for the same or different sectors.

With some exception (mostly human rights organizations), nearly all civil society organizations have potential products, services and training expertise that they can market. The goal is to externalize and utilize this expertise to generate revenue. By providing resources for business planning, marketing, and product development, donors achieve several things simultaneously.

They are able to:

- Amortize their investment in the funded project by enabling the organization to externalize the expertise it has gained from the project to other client groups;
- Transform the project into a program that can be carried forward by the organization, as it has the internal capability to “market” the project to the real beneficiaries, particularly the government;
- Create new professional skills, employment, and training products; and,
- Most importantly, sustain their investment in the professional skills, the sustainability of the organization, and the continuation of the reform effort.

Sustain Knowledge: US assistance is delivered through US experts. Yet only trained in-country providers and professionals can readily acculturate and apply the foreign knowledge. In the Serbian Bar Association example this was part of the program’s cost. Had USAID viewed the Serbian professionalization and knowledge acculturation as an investment, it could have designed the program to have the Serbian professionals continue the national justice reform. By losing the Serbian professionals, US taxpayers lost the investment to another one-off program. *US experts have more value within an investment context*, as the strategy would explicitly include the transfer of their knowledge to in-country professionals, and the development of a funded sustainability strategy at the onset of the program. Acculturating knowledge without a sustainability strategy represents the old assistance model with dependency outcomes.

Leverage Sustainability: Assistance historically has created “stove-piped” and silo divides within USAID. Leveraging lessons learned, best practices, and expertise, as well as integrating field teams with from different sectors, are uncommon practices to the agency or between agencies. For example, a health institution-building program and an immunization initiative would likely be designed as separate in-country projects, while an investment strategy would encourage an integrated design, leveraging expertise, combining resources, increasing success indicators, and reducing costs.

In Egypt, the Dutch Foreign Ministry funds a national rural water development program at the village level while enhancing the Egyptian Ministry of Water's capability to manage this and like programs, increasing the Ministry's management and governance capacities. This is a 15 year investment program that brings integrated teams of experts, including organizational developers, water experts, and rural development professionals to Egypt.

Promote Innovation: Addressing a country's development needs is daunting and made more so by the global dimension of local issues. Development must be focused through a global lens. The flooding of Jakarta in 2007 was as much a problem of levy failure, as the fact that climate change had impacted the monsoon cycle. US development investment needs to encourage innovation, experimentation, global knowledge exchange, and documentation. Integration of knowledge, multi-facet country assessments, and global trends need to be calculated into the country development strategy.

By implementing an investment strategy, the agency would take advantage of 21st Century knowledge models, an incoming generation of technologically savvy development officers, and simpler request and response systems increasingly used by other government agencies and corporations. Most significantly, an investment paradigm would be open to international knowledge and expertise.

It is more than the restrictive contracting rules that circumscribe program innovation at USAID. Rather, it is the agency's inability to engage globally the knowledge and expertise that is available to it, relying only on "brick and mortar" US institutions, and increasingly for-profit organizations, to respond to its elaborate requests for assistance or proposals. *In the technological age, why should America's lead development agency be limited to a narrow pool of US providers with limited knowledge when broader knowledge and expertise is available globally?*

Information technology gives us the opportunity to make local knowledge and innovation known globally. Tearing down bureaucratic walls and opening up development, enables the agency to receive the best models and programs at the lowest price, giving US taxpayers and policy decision-makers maximum results with cost efficiencies.

This would enable policy-makers to:

- Have USAID Missions and in-country governments mutually plan initiatives from a sustainability perspective.
- Bring in other potential donors at the initial planning stage.
- Promote collaboration between in-country planners and end-recipients.
- Dramatically reduce formal solicitation processes.
- Incorporate into the Mission's procurement process expertise and programs globally.

In 2002, Procter & Gamble created “Connect and Develop” with the goal of raising from 15% to 50% by 2007 its new products and innovations originating outside the company. In surpassing its goal, P&G Chairman A.G. Lafley noted that “[while] P&G has 8,500 researchers there are another 1.5 million similar researches with pertinent areas of expertise. Why not pick their brains?”

From an investment perspective you want the best wherever it is available. In *Impact Investing for Sustainable Development*, “Connect, Develop, and Implement” would be an integral part of the new development framework. Why can’t a Mission Director seek out the most successful local anti-corruption initiative anywhere in the world? Over the next three years, more than 1,000 new development professionals will be hired by USAID and the Department of State. This gives the Obama Administration a unique opportunity to break the “brick and mortar” model of development. The youth graduating from today’s academies have a rich culture of communication expertise, networking, and inventiveness never seen before. These people are needed in development, not as “stove-piped” staff working in cubicles, but as “open source” agents of global knowledge gathering, application, and sustainable change and reform.

Build for the 21st Century: *Impact Investing for Sustainable Change* creates a new conceptual platform for sustainable results and enables the re-alignment of key stakeholders (taxpayers, Congress, administration, and implementers) along a philosophy that is easy to understand, encourages donor engagement and coordination, and most importantly, genuinely builds sustainable, in-country capacity for governance, civil society, and economic development.

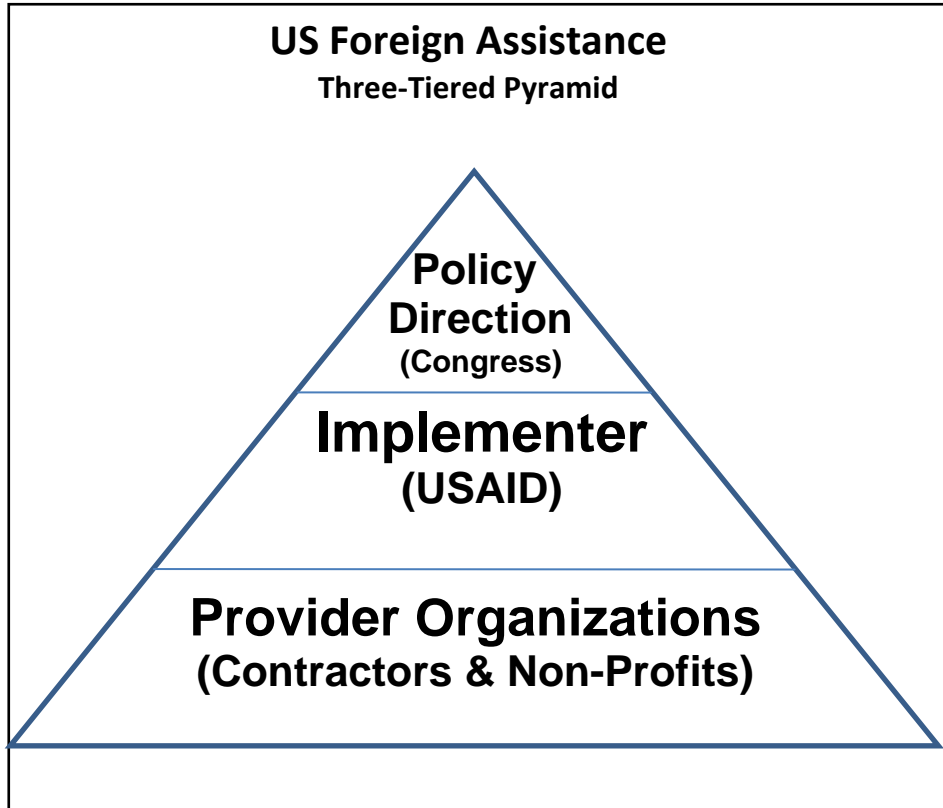
The investment philosophy of *Impact Investing for Sustainable Change* captures what is quintessentially American -- optimism about the value of entrepreneurial prowess and innovation to achieve sustainable change. Social entrepreneurialism is vibrant in developing countries. These social leaders are ready to address the social, economic, environmental, and political needs of their country. They are the agents of change that will make USAID a successful 21st Century development agency.

III. US FOREIGN ASSISTANCE URGENTLY NEEDS REFORM

A. A 20th CENTURY STRUCTURE

There is broad recognition within the development and foreign policy community that 20th Century assumptions, policies, and structures govern US foreign assistance. Nearly all the Washington, DC, think tanks offer prescriptions for change, beginning with giving foreign assistance a “policy voice” comparable to the Departments of State and Defense within the cabinet, National Security Council, or like decision-making forum. While certainly needed and laudable, policy reform addresses only one part of a three part problem. Foreign assistance can be viewed as a pyramid, with policy direction at the top, the primary policy implementer, USAID, in the middle, and the provider organizations at the bottom.

In setting the context for recommending *Impact Investing for Sustainable Development* as a 21st Century policy for US overseas development, this section examines the middle and bottom tiers of the development pyramid, specifically the relationship between the United States Agency for International Development (USAID) and its provider organizations.



Over half of all US foreign assistance is administered by USAID, including the Millennium Challenge Corporation's (MCC) threshold funds, trade negotiated development funds (e.g., labor protections, custom services, environmental standards, etc.), most of Defense appropriation Section 1207 funds, and Congressional ear-marks. Funds implemented by the other agencies, such as Treasury, Justice, Labor, and Environmental Protection, are modest in comparison.

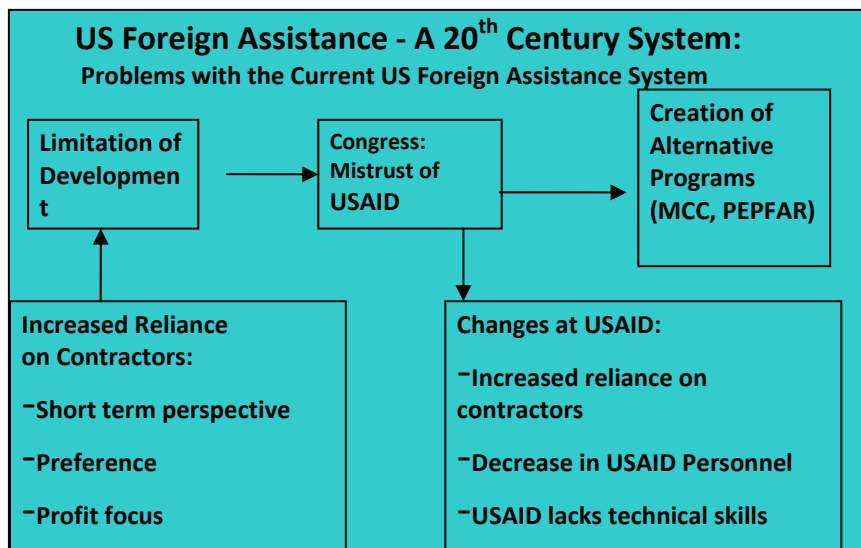
The Congressional Research Service notes that there are 30 US government agencies, departments, corporations, foundations and endowments engaged in foreign assistance, expending in FY 2007 over \$21 billion of which nearly \$14 billion are administered by USAID and the Department of State or 65% of the entire foreign assistance budget. The Department of Defense's foreign, non-military assistance totals over 11%. The remaining 24% are administered by other agencies with limited or no coordination between these agencies or programs. Most recently the strongest advocate for a smaller Defense percentage and greater coordination of foreign assistance has been Defense Secretary Robert Gates, urging Congress to reverse the trend and increase State's and USAID's assistance budgets.

B. CONGRESSIONAL DISTRUST

Congress does not trust USAID to produce results, promoting investigations by the Government Accountability Office (GAO), the Congressional Research Service (CRS), and other organizations. Criticism has mostly centered on the perceived inefficiency of USAID and the agency's lack of quantifiable project results. Worries about USAID's management of taxpayer money have served to justify an increase in congressional earmarks in USAID's budget, giving the agency specific instructions on how funds are to be used. In many respects, Congressional lack of confidence in USAID inhibits the agency's implementation of a coherent, long-term, development strategy, encouraging Congress to promote short-term benchmarks and reporting objectives that reinforce the Congressional perception that the agency can achieve little otherwise. Moreover, Congressional earmarks, often representing well intentioned special interests, further erode the agency's ability to frame and implement a thematic country-based assistance plan.

These factors further encourage USAID to focus on short-term, one-off projects, making programmatic cohesiveness difficult and any sustainability object nearly impossible. Concomitant with Congressional control over USAID's budget, the Bush administration's foreign assistance agenda often bypassed the agency by creating separate organizations to administer aid, including the President's Emergency Plan for Aids Relief (PEPFAR) in 2003 administered by Health and Human Services and the Millennium Challenge Corporation (MCC) in 2004. Finally, both Congress and the past administration accelerated USAID organizational change by encouraging it to contract-out program expertise, management, financial oversight and evaluation consistent with an ideology of limited government and preference for the private sector. This created a flow of USAID organizational talent and subject-matter expertise to move "across the street" and into the private or non-profit sector.

The outcome is an agency significantly compromised in its primary functions to even achieve 20th Century intended results.



IMPACT INVESTING FOR SUSTAINABLE DEVELOPMENT: Raymond Shonholtz, August 2009; Paper prepared while a Public Policy Scholar at the Woodrow Wilson Center for International Scholars, 2008-09.

C. US ASSISTANCE IS “OUT-SOURCED”

At the bottom of the pyramid are the providers: large non-profits, for-profits, and consultants which USAID has come to rely to carry out its projects. Overseeing a staff of 15,000 in the 1970s that included in-house experts on development topics by 2006 the agency’s staff shrunk to below 2,000. As early as 2003 the General Accounting Office (GAO) reported what interviewees have noted to this author:

“USAID has evolved from an agency in which US staff directly implemented development projects to one in which US staff oversee the activities of contractors and grantees.”²

The report concludes that agency capacity to conduct effective oversight and accountability, an issue of Congressional hearings, is challenged and this has only increased over time: “With fewer and less experienced staff managing more programs in more countries, USAID’s ability to oversee the delivery of foreign assistance is becoming increasingly difficult.” Indeed, a 2002 GAO report entitled “USAID Relies Heavily on Nongovernmental Organizations, but Better Data Needed to Evaluate Approaches” concluded that USAID, with its tiny staff and overwhelming number of contractors, was unable to keep track of all its projects in an organized manner.³ The ability of the agency to collect, categorize and analyze grant and program data is still challenged.

USAID outsources its development work: By 2008 it spent 71% of all its outlays on grants, contracting and cooperative agreements with private organizations.⁴ The result has been the creation of an \$8.94 billion per year USAID contracting industry. This industry represents the bottom tier of the pyramid above. Participants in this tier include Non-Government Organizations (NGOs), Private Voluntary Organizations (PVOs), and significantly for-profit development firms. These organizations, mostly US-based with perhaps an in-country consultant or NGO partner, perform the field work and hire the technical experts. The larger contractors employ thousands of people around the world, dwarfing USAID’s staff.

Finally, USAID’s contracting methods mirror the reality of smaller Mission staffs. Using Indeterminate Quantity Contracts (IQCs) or Leader with Associates (LWA) contracting mechanisms, Missions can select pre-approved prime providers with their consortium of limited sub-primes to respond to a Mission request. By limiting competition to a pre-select group approved in Washington, DC, the Mission trades fewer Mission personnel hours for the opportunity to receive tailored, quality responses from diverse providers.

² GAO Report 03-946, “Strategic Workforce Planning Can Help USAID Address Current and Future Challenges”, August 2003

³ GAO Report 02-471, “USAID Relies Heavily on Nongovernmental Organizations, But Better Data Needed to Evaluate Approaches”, April 2002

⁴ USAID Fiscal Year 2008 Agency Financial Report

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D. LACK OF COMPETITIVENESS AND INNOVATION

With fewer staff and persistent congressional and internal agency scrutiny, USAID Missions are risk adverse, turning to contract vehicles as opposed to grants and cooperative agreements to fund projects. Moreover, with less staff, Missions bundle several projects together, creating a multi-year request that is often in excess of \$10-20 million. Only the largest development organizations are able to prime for this type of contract or grant, creating, as the Advisory Committee on Voluntary Foreign Aid (ACVFA) notes: “An over-reliance on a limited number of large, for-profit contractors” The same report observes that “USAID is losing the valuable networks of smaller PVOs, NGOs, and specialty co-ops” due to its favoritism towards large contractors.⁵

Competitiveness within the pool of potential providers has atrophied over the years with smaller, mission-driven, non-government organizations being unable to compete or qualify as a prime, or be selected by a prime as a sub-contractor, when project requests are bundled together.

As early as 2000, the GAO found the top five USAID contractors received \$573 million, or about 14% of USAID’s total business, while the next five largest received only \$261 million.⁶ Industry insiders comment that the difference has become even more dramatic since 2000, and its anti-competitive effects have led to a near monopoly on USAID contracts by a handful of large contractors. The result according to ACVFA has been “A loss of vital networks and agency effectiveness” as well as a lack of innovation, creativity and regional/technical specialization in US foreign aid. Moreover, “The current system of using mainly US contractors often fails to develop local expertise and keeps most of the aid money out of the local economy.

The priority of channeling aid through contracts favors donor commercial interests and undermines local capacity.”⁷ Thus taxpayer funds are often used to support for-profit development organizations that place a premium on organizational relationships with USAID and the bottom line, and less on the sustainable impact of projects that may require on-going relationships with in-country organizations at the end of the grant period. Many in the development community question the rationale of using taxpayer dollars to finance mostly USAID supported development corporations with a 3-7% for-profit bottom line.

More expertise exists within the organizations USAID contracts with than in the agency itself and the increased use of highly sophisticated contracting mechanisms limits the provider pool and the quality proposals USAID receives. The persistent use of US contractors “has long

⁵ ACVFA Report to USAID: “AN EFFECTIVE US FOREIGN ASSISTANCE PROGRAM – REFLECTIONS FROM THE ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID” November 25, 2008

⁶ GAO Report 02-471, “USAID Relies Heavily on Nongovernmental Organizations, But Better Data Needed to Evaluate Approaches”, April 2002

⁷ Berrios, Ruben “Contracting for Development” Praeger Publishers, Westport, CT (2000), pg 13

resulted in poor value for US taxpayer money.”⁸ In Afghanistan over 40% of US aid has gone to consultant salaries or corporate profits when greater use of local organizations would have created jobs, promoted entrepreneurial initiatives, and addressed local needs at less cost.⁹

The result, Missions: do not have the staff to issue several small contract or grant awards; rely on sophisticated contracting mechanisms that pre-select providers, limiting the ability of Missions to select the best from many potential providers; promote growth of large for-profit and non-profit prime contractors; and, do not have the capacity to innovate or seek innovation. The reliance on large providers generates atrophy in the community of smaller US NGO global providers and in-country, local NGO providers.

The interaction between the bottom two tiers of the US foreign policy pyramid---USAID as policy implementer and contractors and grantees as providers--- gives to the US taxpayer a low return on their investment dollar. *Enabling development to have a voice at the policy table will not of it self change these deep deficits in the delivery of US foreign assistance.*

IV. DEVELOPMENT IN THE CONTEXT OF CONSTRAINTS AND OPPORTUNITIES

US foreign assistance needs to be viewed within domestic constraints and global opportunities. The financial crisis will place serious constraints on foreign assistance, both in the amount of funds available and the purchasing power of these funds. Further, well documented and critiqued is the lack of coordination and harmonization of programs among donors, burdening recipient governments with numerous and divergent donor rules, reporting requirements, and expectations. The current financial realities create a propitious opportunity for focusing donor giving to recipient-countries in a coordinated, multilateral manner. US leadership at the policy level could move this needed international agenda forward, provided the implementation capabilities of national assistance are aligned among the donors. The following list sets out some global issues that would enhance US assistance:

- Cooperation with other donors, including foreign, corporate, foundations, and multinational institutions needs to be enhanced
- Greater in-country donor management capacity and coordination is required to reduce the burden on in-country ministries to manage multiple donor programs and reporting needs
- Facilitative forums are required to ensure sufficient government and donor engagement, buy-in, and agreement, necessitating both policy level and program cooperation between recipient governments and international donors

⁸ Birdsall, Nancy, Editor: “The White House and the World: A Global Development Agenda for the Next US President” Center for Global Development, Washington, DC (2008), Pg 25

⁹ Birdsall, Nancy, Editor: “The White House and the World: A Global Development Agenda for the Next US President” Center for Global Development, Washington, DC (2008)

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- US foreign assistance requires commitment to long-term goals and funding, reducing the negative impact of short-term commitments on planning, funding levels, coordination, and program success.

Further, the National Intelligence Committee's 2025 Future Report¹⁰ anticipates certain realities that must be factored into the US strategy for providing foreign assistance:

- The US will remain powerful globally, but US dominance will diminish
- Globalization will expand and deepen, resulting in increased inequalities between and within countries, placing greater challenges on foreign assistance
- There will be no significant change in energy utilization or resource management over the next 10 years; persistent poverty, food, and health problems will prevail
- Religious extremism warrants attention, though pragmatic challenges trump ideology; the impact of the financial crisis warrants sustained program attention to root-out conditions of extremism
- Increased movement of people toward urban employment hubs, and decreasing resources, water, and habitability will create local instability, especially within these hubs, fostering new demographics that create challenges in local and regional health, ethnic, and violence and like issues.

The present financial crisis and global needs make it essential that the entire assistance pyramid is capable of achieving a higher level of sustained effectiveness. Presently, the organization and dissemination of assistance resources are short-term, non-sustainable, expensive, and wasteful. They inhibit multi-donor cooperation and coordination needed in a declining funding world. A new framework is required.

V. A NEW DEVELOPMENT FRAMEWORK: “IMPACT INVESTING FOR SUSTAINABLE DEVELOPMENT”

A. OVERVIEW

The British Government's Department for International Development (DFID), as noted in “The DFID Model: Lessons for the US” published by Johns Hopkins' School for Advanced International Studies, stated that DFID “guarantees several years of funding at the outset of a development project” for up to ten years.¹¹ One of the singular problems in development is the failure to maintain in-country effort for a time period that would achieve success. Many donors and USAID especially, calibrate their programmatic effort in 12 month blocks with three blocks generally being the longest. In reality, this means after 4-6 months in start-up and 4 months in close down, there are only 28 months of activity in a 36 month period in which to achieve stated goals; rarely sufficient to achieve success, especially for complex programs.

¹⁰ (2008). *Global Trends 2025: A Transformed World*. Washington, DC: National Intelligence Council.

¹¹ Richard, Anne, and Rupp, George, “The ‘DFID Model’: Lessons for the US,” Center for Transatlantic Relations, SAIS, Johns Hopkins University, 2008

US development needs to be understood as investing, focusing on the outcome sought. “Impact Investing for Sustainable Development” reframes the perception and understanding of US development funds. Citizens and Congressional leaders understand investment concepts and terminology better than assistance concepts, which often sound like give-a-ways. An investment framework provides decision-makers a consensus approach to longer term funding commitments aligned with in-county goals---such as a rule of law system, competitive procurement, a non-corrupt civil service, etc. --- and intended outcomes.

B. WHAT IS *IMPACT INVESTING*?

Impact Investing focuses on building the sustainable capacity of in-country organizations to deliver systemic change over an extended period of time. Systemic change, in-country capacity, and sustainability of professional expertise are intertwined under Impact Investing. Impact Investing creates the capacity for organizational sustainability, enabling the organization to continue applying its professional abilities to systemic issues.

For example, had the ABA CEELI’s Serbian Program (cited in box example, page 5) been designed as an investment, “closure” would have resulted in Serbian professionals taking the effort over, building an on-going relationship with the Serbian government, other donors, and new clients to continue and enhance the rule of law institution building program.

C. WHO ARE THE BENEFICIARIES OF *IMPACT INVESTING*?

Impact Investing is about in-country people, building local capacity that can be used on a recurring basis. It is about employment and technical competency that others, like local governments and companies, can draw on. It is about making the recipient country a beneficiary of the reform effort by placing the performance capability confidently within in-country professionals.

Reversing USAID’s “one off” project orientation--- where staffs are recruited, hired and trained to work on a specific project ---Impact Investing recognizes that the most important component to any business or reform effort is the trained staff. Under *Impact Investing*, USAID’s logic is inverted: maintaining the staff becomes critical to the success of the development goal and the sustainability of the organization’s capacity to promote it.

D. WHY *IMPACT INVESTING*?

Impact Investing is an innovative development instrument that can deliver systemic, in-country reform while addressing many critiques of USAID:

Impact Investing:

- Focuses on planning and implementing systemic reform (e.g., rule of law; professional civil service systems; anti-corruption policy and initiatives; police reform; local governance in post-conflict regions; etc.).

- Focuses on coordinating over minimally a five year period donor organizations (including foreign, corporate, private, and multinationals).
- Builds sustainability at the very out-set, enhancing the capacities of the in-country NGO or government agency providers to maintain the reform effort through local professional competency, weaning dependency on foreign resources and expertise.
- Creates a “lobby” of reformers---the engaged local professionals, government, and civil society organizations---committed to its success out of self-interest (employment), idealism (improved governance), and culture (demonstrating that local needs can be best addressed by committed local providers).
- Inverts the perspective and application of development from what a US provider can deliver to what it takes to make an in-country provider capable, competent and sustainable to maintain delivery.
- Transfers US NGOs expertise to the in-country provider, enabling it to have strong financial systems, organizational development and business plans, a well trained staff, and subject expertise.
- Builds a business plan at the outset of the capacity building effort, enabling the provider organizations to identify future deliverable products and services, and the type of organization staff and board of directors required for organizational sustainability. As any entrepreneur knows, sustainability is not a “fourth year” exit strategy, but an integral part of the initial organizational development effort.
- Expands the funding base, bringing diverse donors (corporate, foreign, private, multinational, and in-country) into the design of the reform effort.
- Creates a matrix of measurable outputs, outcomes, and impacts [for example, the maintenance of a judicial data system by trained in-country professionals].

Impact Investing for Sustainable Development provides the conceptual model for development success.

E. *IMPACT INVESTING CAN PROMOTE ORGANIZATIONAL SUSTAINABILITY*

Under Impact Investing the donor(s) seek to build a sustainable organizational capacity that can maintain the programmatic effort, keep skilled staff together, and have diverse streams of revenue. In funding the specific project, the donor(s) also include funds for the organization’s ability to extrapolate products and services derived from the project and market them to other sectors.

To illustrate, an entrepreneurial staff can promote organizational sustainability by taking its expertise from one project with a sector focus to another. A staff trained in applying community mediation can design and implement environmental or labor mediation programs, structures and training initiatives based on fees, grants or contracts. Donor investment in the organization's sustainability plan enables the marketing person to reframe the organization's mediation expertise to the needs of potential clients.

Diversified application of mediation expertise, as applied by many of the Partners for Democratic Change Centers, was originally developed under a USAID grant focused on Roma issues in Central Europe, and is now applied to:

- Corporations and government (national and local) contracts for communication, negotiation, mediation, supervisor-supervisee, managerial, leadership, and customer service skill building and training programs
- Civil society organizations, likewise, need many of these interactive methods and have grant funds to increase their own managerial and organization effectiveness

With the exception of some types of NGOs (mostly human rights groups), nearly all NGOs have potential products, services and training expertise that they can market. The goal is to externalize and utilize this expertise to generate revenue for the organization. Developing business planning capabilities within the organization and training the staff in marketing and outreach skills are essential to achieving organizational sustainability.

Sustainability from an investment perspective has at least four organizational dimensions:

- Ensuring that the human capital investment is consistently utilized and developed
- Structuring the organization such that it can market the human capital
- Creating within the organization the capacity to extract from projects products and services applicable to future project, contract or fee-for-service work
- Building the organization's capacity to manage diverse streams of revenue

Finally, an investment framework is linked to sustainability, while the concept of assistance does not make this integral to a project design or strategy.

VI. MOVING BEYOND “BRICK AND MORTAR”: ENGAGING TECHNOLOGY AND THE “E-GENERATION” FOR DEVELOPMENT

The Obama Administration has a unique opportunity to make a break from the present “brick and mortar” form of development. Our assistance model relies on grants and contracts almost exclusively to US providers, and increasingly to for-profit firms. What a USAID Mission director or Army captain receives from this contracting process is only what a US provider knows. In the age of technology this limitation is a direct disservice to the US taxpayer, Congressional policy-makers, Mission decision-makers, and the development community.

IMPACT INVESTING FOR SUSTAINABLE DEVELOPMENT: Raymond Shonholtz, August 2009; Paper prepared while a Public Policy Scholar at the Woodrow Wilson Center for International Scholars, 2008-09.

A revitalized USAID applying an investment framework would bring the best programs, expertise, and technology into the decision-making process from any source available globally, as this would uncouple available knowledge (best practices, lessons learned, and successful programs) from the limited expertise of US providers. This is central to making US development a world-class framework, putting it years ahead of any other country's development organization. US providers simply do not have all the needed knowledge or expertise to provide the best in development, yet Congress and field decision-makers in the military and USAID should have and expect it.

In development, the most central issue should not be the provider; rather it should be the knowledge and expertise being provided. A critical concern for decision-makers is not inventing new knowledge, but accessing, acculturating, and applying knowledge that already exists globally. Acculturating and applying knowledge is an integral part of Impact Investing, building up sustainable in-country organizations that perform and are responsible for these functions. A 21st Century development framework needs to access knowledge globally, making it readily accessible and applicable to planners, decision-makers, and local implementers.

“Crowd-Sourcing,” aggregates knowledge on a global basis for innovative solution options. “Crowd-Sourcing is the mechanism by which talent and knowledge is matched to those in need of it.” [Howe, John; Crowdsourcing, New York, Crown Business, 2008].

This innovation is now applied by the US Government (Department of Defense), corporations (Proctor and Gamble), foundations (Rockefeller Foundation/Innocentive), and NGOs (Partners for Democratic Change). Crowd-Sourcing applies an “open source” approach to knowledge gathering, exchange, and program improvements. It provides a new portal for the exchange of development information that is presently absent in policy and program decision-making. Crowd-Sourcing identifies and creates a “knowledge community” to solve problems and deliver innovative approaches.

For example, when a USAID Mission considers a request for proposals, instead of preparing a lengthy announcement, it would prepare a short description of the need. The Mission “E-staff” would crowd-source this announcement to the world. Anyone with knowledge or expertise on the envisioned or desired program could respond. Instead of the Mission relying on framing the contours of a request for a select provider group with limited expertise (as prevails under the procurement constraints of an Indeterminate Quantity Contract or Leader with Associates), it would tap into the expertise available globally

Partners for Democratic Change is presently working on a prototype crowd-source model for grant-making within the Department of State supported by a grant from the IBM Center for Business of Government Competition.

Enabling development to access and apply global knowledge locally addresses Secretary of State Hillary Clinton goals by:

- 1] Bringing the assets of technology into development.
- 2] Creating relationships that align US corporations with US foreign policy.
- 3] Utilizing the expertise of new, technologically sophisticated development staff.

Regarding #3, what is the nation's most impressive asset? The youth graduating from today's academies have a rich culture of communication and information technology, networking, and inventive expertise never seen before. These people are needed in development, not as "stove-piped" staff working in cubicles, but as "open source" agents of knowledge gathering, dissemination, and change.

It is not only that expertise, experience, and broad knowledge exists on nearly all subjects in the "open-source" world, it is that in the US our present generational culture is oriented toward accessing this knowledge. To hire new staff to work in the old USAID format is wasting a generational cultural skill that could dramatically advance development beyond its current confines, making more knowledge available than ever before and significantly improving initiatives for change. Providing policy and decision-makers information on what is working locally in diverse subjects globally radically reshapes the entire development process. Impact Investing will thrive in a technology-rich development environment.

Finally, development needs to be experienced, understood, and supported by a significant percent of Americans, just as the Peace Corps has achieved. While it needs to be done professionally, not all development needs to be conducted by career Foreign Service officers.

Bringing in academics, mid-career professionals from law and business, leaders from NGOs, and managers from corporations, would give USAID a healthy and diverse perspective. Five-year, non-tenure positions should be a significant component of the agency's personnel, fostering within the agency a new dynamism, spirit, and commitment to development and not career goals. While this opportunity presently exists within USAID, it should be dramatically expanded.

VII. OUTCOME

The outcome of an impact investment and entrepreneurial strategy is to create an in-country capacity to maintain, improve, and sustain a reform initiative with limited or no external expertise or funding. The intent is to build expertise in the host country, providing new knowledge, skills, and employment. Having such skills will enable local providers to promote their expertise in other areas, sustaining the capacity that has been built and creating a demand for their developed skills. Over time, donors will have an array of local professionals to select from, limiting their dependency on external providers and placing more of their development funds in-country. This latter result will secure more in-country government and civil society support, corporate engagement, and greater donor coordination.

Further, with a new framework, revisions in the pyramid structure are easier to calibrate and organize. A reformed USAID needs a sharper purpose, scope, and organizational structure to regain the confidence of Congress. Congress needs to be confident that in providing sustained, predictable funding that the agency can achieve sustainable in-country reform. Working together, the confidence, competency and capability needed within the agency can be restored.

Impact Investing for Sustainable Change creates a new framework for sustainable results and enables the re-alignment of key stakeholders (Congress, administration, and implementers) along an approach that is easy to understand, encourages donor engagement and coordination, and most importantly, genuinely builds sustainable, in-country capacity for governance, civil society, and economic development. A social investment framework captures what is quintessentially American: optimism that in-country social entrepreneurial prowess and innovation can drive developing countries' social, economic, and political advancement.

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