



Aid Effectiveness Approach in Grassroots Development

FRESH Global

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About the author

Kamau M. Lizwelicha is a former US Foreign Service Officer with USAID and has been a consultant for several USPVOs throughout Africa and the Middle East. He has over twenty years experience working on foreign assistance projects and brings a wealth of experience. Prior to USAID, Mr. Lizwelicha worked for Ernst & Young as an auditor and financial advisor. He has extensive knowledge in the area of Project Design & Implementation, Monitoring & Evaluation, Financial Management, NGO strengthening, Operations, Contracts & Grants Administration, and Project Development. Mr. Lizwelicha has effectively applied this knowledge to Basket Funding projects and the Governance & Economic Management Assistance Program (GEMAP).

Executive Summary

How can USAID improve aid effectiveness at the mission level to achieve the Presidential Study Directive (PSD-7), Quadrennial Diplomacy and Development Review (QDDR), and the US House & Senate foreign assistance reform bill, including, the Paris Declaration and Accra Agenda for Action commitments? One way is to improve project strategy design and implementation approaches.

The following approaches in this paper focus on key development principles: harmonization, management for results, ownership, and mutual accountability. The synergy of these principles rests on strengthening local non-government organizations (NGOs); particularly, local civil society organizations (CSOs) by implementing projects using a Basket Funding (BF) method and strengthening host government systems through a Governance and Economic Management Assistance Program (GEMAP) method¹ that can ensure accountability and transparency. Implementing these two methods will remove obstacles toward distributing funds to local CSOs and host governments. These methods can reduce corruption and increase the transaction governance capacity (TGC) of both the Host Government (HG) and local CSOs.

Though BF method is not unique in the global development arena with other donors and UNDP, USAID rarely uses the method because of commingling of funds. However, BF is a ubiquitous method used in many host countries with success. The method can be strengthened with more emphasis on capacity building and institutional sustainability. The FRESH Global BF method, “Basket Funding-Institution Building or BFIB,” looks at institution building as an essential ingredient to aid effectiveness. USAID can use the BFIB method to lead the way in institution sustainability, local CSOs capacity building, donor collaboration and mutual accountability. To strengthen the host government (HG) institution, we need to examine the GEMAP method.

GEMAP is a USAID game-changing innovative program launched in 2005 with the collaboration of other donor partners and the GOL. GEMAP made notable strive to improve the GOL systems; however, it failed to provide a baseline assessment and a comprehensive capacity building strategy at the beginning of the project. Nevertheless, it had an impact on the GOL systems but could have done more.² USAID can enhance the GEMAP method with greater emphasis on HG system strengthening and capacity building/mentoring.

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¹ <http://liberia.usaid.gov/node/60>

² http://pdf.usaid.gov/pdf_docs/PDACL945.pdf (NB: The author was one of the GEMAP Senior Advisor)

Aid Effectiveness

Background

With the *Monterrey Consensus*³, *Paris Declaration on Aid Effectiveness*⁴ and the *Accra Agenda for Action*⁵, one reverberating theme was “Delivering and Accounting for Development Results.” Management for results can be improved with developed cost-effective results management instruments and information systems. Equally important is a commitment toward creating systems that ensure fiscal management while empowering aid recipients to manage programs effectively within their communities in perpetuity. The U.S. Government recognizes the need for aid effectiveness. With the Presidential Study Directive (PSD-7), Quadrennial Diplomacy and Development Review (QDDR), and the House & Senate bills on U.S. foreign assistance, the need to improve the accountability and transparency of foreign aid is not only necessary to reduce poverty and contribute to broad based economic growth in developing countries consistent with internationally recognized development goals and host country priorities, but also to achieve United States long-term foreign policy and national security interests.

Overall, Aid Effectiveness is becoming a focused priority throughout the US government. Many reviewers have noted the fragmentation of U.S. foreign assistance management from the GAO,⁶ the OECD-DAC,⁷ and the MFAN.⁸ In addition, the lack of policy and strategic guidance, overarching allocation criteria for foreign assistance, and the volatility/predictability provides challenges to greater USG Aid Effectiveness. How can USAID contribute to aid effectiveness with the framework of the Accra Agenda for Action (AAA) and U.S. Government global development? One way is to improve project strategy design and implementation. This paper explores two methods to improve aid effectiveness.

Aid Effectiveness Methods

The Paris Declaration and AAA recommend joint progress towards ownership, alignment, harmonization, results, mutual accountability, predictability, country systems, conditionality and untying.⁹ The two methods below will address the above recommendations. For instance, the BF method addresses ownership, alignment, harmonization, results, and mutual accountability. The GEMAP method addresses predictability, country systems, conditionality, and untying. Both methods will help the host country to develop governance capacity and improve aid effectiveness.

³ <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>

⁴ http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html

⁵ <http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf>

⁶ U.S. Government Accountability Office, “Foreign Aid Reform: Comprehensive Strategy, Interagency Coordination and Operational Improvements Would Bolster Current Efforts,” GAO-09-192. Washington, DC 2009.

⁷ OECD-DAC, “Peer Review: The United States:” OECD Journal on Development 2007, Vol. 8, No. 2.

⁸ Modernizing Foreign Assistance Network, “New Day, New Way: U.S. Foreign Assistance for the 21st Century,” June 2008.

⁹ http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html

Basket Funding

Traditional basket-funding may not be considered an innovation; however, with the right strategy & implementation can lead to innovative, game-changing results. First, let us clearly defined BF,

Basket funding is the joint funding by a number of donors of a set of activities through a common account, which keeps the basket resources separate from all other resources intended for the same purpose. The planning and other procedures and rules governing the basket fund are therefore, common to all participating donors, but they may be more or less in conformity with the public expenditure management procedures of the recipient government. A basket may be earmarked to a narrow or a wider set of activities (e.g. a sector or a sub-sector). The term "pool(ed) funding" is sometimes used instead of basket funding.¹⁰

BF has been a challenge for the USG because of commingling of funds and reporting requirements. However, the mechanism needs a closer look and consideration to improve aid effectiveness and Donor/Host countries mutual accountability. Both the developing HG and local CSOs could benefit from a sustainable BF program. How can this instrument assist CSOs?

To improve aid effectiveness, grassroots CSOs participation in the aid system is critical to ensure sustainability. In many countries, however, local CSOs participation is low because it is difficult for them to obtain funding, especially for those who do not work jointly with larger, well-established, international CSOs. In addition, these local CSOs' roles in development are limited because information and resources flow primarily between donors and the HG that often excludes citizen participation at grassroots levels. BF integrates programming with donors, the HG, and local CSOs, thus harmonizing the objectives of the tripartite. Synchronizing the three, key parties ensure effective project management and participation. The BF addresses the Paris Declaration objectives of host country involvement/ownership, concerns over efficient aid receipt and distribution, while establishing a monitoring system, that includes adequate data collection—ensuring that aid contributes to concrete results for communities in need.

UNDP and DFID have been using this method in several countries and have discovered the following lessons learned:

- BF increases government control over aid. It has also provided donors with increased access to and involvement in setting the policy agenda in countries.¹¹
- BF reduces transaction costs for both governments and donors.¹²
- BF helps avoid delays, eliminates the risk of duplicating efforts, and eliminates the need for a multiple agreements, budgeting and reporting requirements. BF can also have more impact on specific activities than would be impossible through a single funder.¹³

Informed by those lessons learned, FRESH Global has developed a BF method that addresses a robust capacity building focus, institutional sustainability, and IT innovation, i.e. web-based accounting, e-governance, and e-service systems. As mentioned above, our method is called, "Basket Funding – Institution Building (BFIB)." BFIB is a crucial method focusing on development results, strengthening local CSOs, involving the private sector participation, assisting countries to develop and implement their own strategies

¹⁰ AID management guidelines glossary explanation. <http://amg.um.dk/en/servicemenu/Glossary/Glossary.htm>

¹¹ http://lencd.com/data/docs/245-Guide%20on%20UNDP%27s%20Role%20in%20a%20Changing%20Aid%20Environment_Direc.pdf

¹² *ibid.*

¹³ <http://www.gsdr.org/docs/open/HD538.pdf>

for poverty reduction, and building sustainable institutions. What are the cost savings and advantages of the BFIB method?

With BFIB, one can achieve economies of scale across a large number of implementing organizations. For instance, a NGO service center (or a hub) where incoming and outgoing funds are distributed, donors save on the administration costs. Moreover, BFIB operates with a two-tiered management structure: a policy or technical oversight committee (Steering Committee) to ensure the project remains on track and on budget, and a day-to-day Implementation Management Unit (IMU). The IMU reports to the Steering Committee, which usually includes contributing donors, HG officials, CSO representatives, and private sector. In addition, wider consultation and co-ordination with donors, civil society, and other parties who are not contributing to the basket fund is often facilitated through a stakeholder forum. The steering committee will identify the community-specific development projects. The BF resources will go to the established CSO and other local organizations for project implementation. The IMU provides day-to-day guidance in the areas of financial management systems, grants administration, budgeting, procurements, M&E, and reporting. This approach addresses harmonization, management of results, and mutual accountability.

USAID's ability to achieve development results can be enhanced by piloting the FRESH Global BFIB method and establishing institutions in those countries with nascent or developed local CSOs to partner with their governments with development programs.

GEMAP

GEMAP is a partnership between the Government of Liberia (GOL) and the international community to improve governance, enhance transparency and accountability, and lay a solid foundation for sustainable peace. To achieve these goals, three principal interventions are involved: Senior Technical Advisors, Steering Committee, and a Technical Team. The senior technical advisor provides day-to-day guidance and had co-signatory authority, so that no major transaction takes place without a careful examination of compliance. The steering committee, consisting of the US Ambassador and President Sirleaf, provides the oversight of GEMAP. The technical team provides technical assistance to the steering committee and implements GEMAP activities. The most significant and debatable GEMAP component was the co-signatory authority and host government sovereignty. Though the government sovereignty question might have overshadowed the progress of the program, GEMAP has made strides in strengthening the GOL to safeguard the collection of millions of dollars, ensure appropriate distribution and account for and report on the management of the funds.¹⁴ Furthermore, the method has enhanced budget and expenditure management, procurement, controls on corruption, capacity development, and donor coordination. While largely successful, the GEMAP program had some shortcomings in the areas of capacity building and training (CBT) of staff.

The GEMAP method would be more effective with certain modifications. Our research indicates that CBT produces returns only after several years;¹⁵ therefore, CBT must start at the beginning of the project and continue throughout the project life cycle. Properly trained staff will reduce corruption and increase transparency, together with comprehensive assessments of the host government accounting and procurement systems with concrete recommendations and timetables, a timely HG reporting system, and IT systems must be deployed and developed.

¹⁴ <http://allafrica.com/stories/200910110005.html>

¹⁵ http://www.mckinseyquarterly.com/Not-for-profit_management_The_gift_that_keeps_on_giving_986

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Conclusion

Instituting aid reform and creating new paradigms for effective aid distribution is a matter of amending the legacy of development in the third world, which has implications towards ensuring US foreign policy objectives and security. As the USA looks to strengthen global relationships, and homeland security, the importance of aid-related social programs becomes paramount in achieving these goals. Shifting the status quo in development will ensure the success of US-funded programs, garnering more meaningful outcomes at the local and international levels.

If local grassroots communities can make a direct connection with success in their communities with USAID programs, the outlook on their relationship with US aid and policy becomes more favorable in the long-term. Witnessing growth and success in their local communities creates the allegiance necessary to thwart external funding from hostile nations, which directly affects US homeland security and USAID development interests.

USAID has an opportunity to improve aid effectiveness and achieve the Paris Declaration commitments, PSD-7, QDDR, and the US House & Senate bills on foreign assistance reforms by taking the lead in a participatory approach that encompasses a transparent and accountability process through grassroots development by applying a Basket-Funding and a GEMAP method to USAID strategy implementation. Collaborating with host governments, CSOs and FRESH Global (sole purpose to build capacity and strengthening systems), we can cause a change. Take the challenge and lead the way.

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