

**Written Testimony of
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Good morning. I am Susan Berresford, President of the Ford Foundation. It is an honor to testify before this committee on the Millennium Challenge Account and the proposed Millennium Challenge Corporation. I might say, Mr. Chairman, that it is a personal pleasure to be here, knowing of your support for the Ford Foundation's new 10-year International Fellowship Program and your long and distinguished record of leadership on critical issues in U.S. foreign policy.

The MCA is a very welcome initiative from the Administration. It holds the promise of bringing substantial new resources to U.S. foreign assistance for development. It also has the potential more fully to express our country's responsibilities - and our values - to help those least favored in our world. Equally important, MCA shows fresh thinking both about how development occurs and how this country might better assist others in their own efforts. Development is a large, multidimensional process. This is wisely recognized in the legislation's focus on just and democratic governance, economic freedom, and investment in people. Development must draw upon and energize the full range of a country's people and institutions. That is the Ford Foundation's experience and, I believe, reflects the best thinking in this field.

At this point the new entity that will oversee and administer the MCA is still to be structured and fleshed out. Of utmost importance is clarifying the MCA's relationship to other existing agencies of official foreign assistance, perhaps most fundamentally USAID. Since I believe others are commenting on this crucial point, I will focus primarily on ways that the Ford Foundation's international development experience may contribute to your thinking about the structure and operation of the Millennium Challenge Corporation.

The Ford Foundation is a private foundation with more than 50 years of work internationally and in the U.S. In that period we have provided more than \$12 billion in grants and loans, about 40% of that abroad. Those are significant dollars but only a small part of the total resources needed for development. Recognizing the limitations of this scale of funding, we have tried to function as an "R & D" donor - using our resources to

test new ideas and help bring them to scale, to establish new kinds of organizations, and to amplify the voice and contributions of talented people who would otherwise be marginalized. We seek to be a resource for innovative people and institutions strengthening democratic values, reducing poverty and injustice, promoting international cooperation, and advancing human achievement.

A fundamental challenge facing every society is to create political, economic and social systems that promote peace, human welfare and the sustainability of the environment on which our lives depend. We believe that the best way to meet this challenge is to encourage initiative by those living and working closest to where problems are located; to promote collaboration among the nonprofit, government and business sectors; and to ensure participation by men and women from diverse communities and at all levels of society. In our experience, those activities help build common understanding, enhance excellence, and enable people to improve their lives and communities.

The Foundation is headquartered in New York City, and we currently have 13 offices in Asia, Africa, Latin America and Russia. Through this network, we support work in some 35 countries. About 46% of our current program budget is spent on international development.

In your letter inviting me to testify, Mr. Chairman, you asked that I focus my comments on the obstacles that the new Millennium Challenge Corporation may run up against. You mentioned such issues as the optimal ratio of funding levels to staff, the ideal composition of the foundation board, and the advantages and disadvantages of field offices. As you noted in your letter, the MCA does have some similarities to foundations such as Ford in its character and purpose. There are also obvious differences. For starters, the scope of MCA - a contemplated \$5 billion annual spending level by its third year of operation - dwarfs even the largest private philanthropies. And as an initiative of the United States government, it will operate somewhat differently from an independent, private foundation.

But there may be principles of operation from Ford's experience that would be helpful guideposts for MCA. I will try to put four of these before you for this committee's consideration.

1. Work close to the ground through in-country offices. We believe strongly that our structure of overseas offices makes Ford particularly effective in supporting development on the ground - which is where it has to take place. In-country offices allow us to operate as genuine partners - building relationships of mutual knowledge and respect with people and institutions in country. They give us local credibility - a "seat at the table" with others who are tackling tough issues in development. They allow a full and nuanced sense of context and culture, of how things really work and how they are evolving as the grants and loans play out. Moreover, since we are local, we can respond quickly to new opportunities and unforeseen difficulties that are hard to see from farther away. They help us make well-informed initial decisions about funding - the difference between a

project that looks wonderful on paper but less promising on the ground or vice versa - and they are critical to our ability to ensure reliable monitoring and evaluation. The MCC needs these capacities that are nearly impossible to obtain any other way.

Of course, maintaining overseas offices has a cost, and that is something we have accepted in order to increase effectiveness. In our experience, at our scale of operation, an overseas office brings an additional cost of 15% of the funds spent overseas.

2. Invest in staff with diverse qualifications and give them significant authority and flexibility. This follows on very closely from Ford's commitment to working close to the ground in an R&D mode. Our board gives the president authority to approve all grants and loans, after substantive discussion between the board and staff about the aims, strategies and funds we expect to employ, and how we will measure progress. And with the board's approval, the President further delegates much grantmaking authority to heads of overseas offices. This is to avoid decisions being bogged down in endless process and bureaucracy. Staff regularly report back to our board on how the work is going. We also require regular reports from grantees and have normal accounting and other controls.

For such decentralization to be effective, Ford needs seasoned people able to handle that authority and a fairly streamlined approval process. With this in mind, we recruit an overseas staff with excellent technical and academic skills, knowledge of the country context, and local languages. They have a range of professional backgrounds - they are economists, lawyers, MBAs, social scientists, NGO leaders - a diversity that we have found contributes to fruitful thinking across the different dimensions of development. Many are drawn from the countries or regions where they are working - 30% of our program staff, currently - bringing perspectives that help us formulate more informed judgments and strategies. We look for people able to interact effectively with local men and women at all levels, and with experience in complex organizations. I might note that all our program staff operate on 3 year contracts. They typically spend about 6 years with the foundation. We benefit enormously from fresh thinking that new staff members bring to our different programs.

Across the foundation we have 125 grantmakers, 65 of whom work outside the U.S. On average each overseas staffer now makes grants totaling \$3 million per year. If our assets grow, these totals could increase to \$5 million. As most of our grants are for two to four years, each staff person manages a portfolio of old and new grants totaling about \$7.5 million. Portfolio management includes visiting grantees, helping grantees to muster useful expertise, and convening worldwide and national meetings to exchange ideas with people doing similar work. In each overseas office, in addition to grantmakers, we also have accountants, and normal office staffing to help ensure compliance with relevant laws and adherence with good practice.

Reflecting on our experience and even allowing for differences in operating style and purpose, I find the proposed MCC staff total of 100 persons (covering grantors, back

office and other functions) surprisingly small for the \$1.3 to \$5 billion spending levels contemplated in the first years.

3. Aim to build local development capacity in all three sectors over the long term.

The responsibility for national development lies with a country's own people and institutions. Thus, development donors should engage with a country in ways that build individual and institutional capacities in all three sectors - government, business and non-profits. Although Ford is an R&D donor and does not fund "country plans" as such, we do have experience with all three sectors. Our way of working with each of them has varied in different times and country settings, depending on where we see ideas, energy, and need. Sometimes we have focused primarily on working with government agencies and infrastructural institutions, sometimes with business, other times with NGOs and civil society. Local and national NGOs have become a flourishing force for development in many of the countries in which we work. We devote significant resources to helping build their capacity, in addition to working with U.S.-based international NGOs.

Plans for the MCA seem sharply focused on the government as the primary development leader and contractor. Certainly, government has a lead responsibility but innovation and effectiveness are also often found outside of government, for example in a country's NGO community. It may make sense for the MCA to state clearly its aims and objectives in a country and then have an open competition that allows all sectors to bring forth their best proposals, and some to apply in cross-sectoral combinations. No single sector has a monopoly of good ideas, and often the most fruitful development innovation involves combining the capacities of at least two of the three sectors.

I would make a related point about evaluation and monitoring. In many countries in which the Ford Foundation works, universities and policy analysis groups have been building capacity for evaluation and tracking of national and local programs. Some NGOs have also built very sophisticated systems for monitoring and analyzing their work and that of counterparts. In the long term, these independent analytic resources are essential to ongoing development. The MCA has an opportunity to utilize and further strengthen them. As it currently reads, the MCA proposal seems overly dependent on evaluation from outside, presumably from U.S. based institutions. Each MCA grantee could be encouraged to include in its proposal a full plan for evaluation and monitoring, utilizing its choice of independent institutions that meet certain specifications and qualifications. MCA could still have its own overview review process, but it can augment this with the observations and analysis of professional people close to the ground and familiar with the operating realities.

4. Get guidance from a diverse and active board. The Ford Foundation has an independent board drawn from all three sectors with which we work. Our trustees have always included corporate CEOs, former elected and appointed government officials, NGO and civic leaders. They come from the U.S. and from countries around the world. We need that diversity because our program strategies involve civil society, government and business and encompass a wide range of fields related to social change and development. Our trustees are particularly valuable in bringing us the most up to date

experience of individuals who are active in their different spheres. They view our work with "outside" perspectives, and they challenge our ideas and our assumptions – playing a very useful role in an institution deeply engaged in daily realities of development. Our trustees devote approximately 15 days to the foundation every year - in three two-day meetings in New York, in a field visit of 3-7 days to look at our programs and initiatives in the U.S. and abroad, and in various consultations and preparation.

The board for the new entity for the MCA will obviously reflect the fact that MCA is a program of government assistance. But it is worthwhile for the Congress to consider ways it could draw upon the strengths of individuals beyond the public sector. MCA is not a conventional government-to-government aid program. It will support development involving a variety of organizations from civil society and from the private sector. It would benefit from guidance from a board whose members were active in those different spheres, which have complementary contributions to make to overall development. And it would be stronger if it included active participation of individuals from countries in the developing world itself.

The MCA has a laudable goal of making assistance for development more transparent and objectively-based - and less subject to political pressures familiar in past programs. That is a challenge in both perception and practice. An active, diverse board could be an asset to the new entity in establishing its credibility as a fresh approach to U.S. developmental assistance. Even more important, such a board could also give MCA the kind of guidance it will need if it is to be a pioneer and respond to and support the full range of ideas and energies that go into genuine and lasting development.

Mr. Chairman, that concludes my testimony. I would be happy to respond to any questions the Committee may have.