Working Itself Out of a Job: USAID and Smart Strategic Transitions

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Abstract

Even before he took office, USAID's new administrator, Mark Green, made public his conviction that the objective of foreign assistance "should be ending its need to exist." He acknowledged the sentiment was not new. Indeed, his predecessors—from administrations of both parties—related a similar doctrine. But Green pledged to make to make the tenet the "core operating principle" of the United States' largest aid agency. And in articulating plans to pursue "strategic transitions," he lent new import to an age-old question and resurrected a serious discussion within the international development community about when and how USAID should seek to transition select middle-income partner countries away from traditional grant-based assistance toward alternative forms of engagement. This paper seeks to inform USAID's approach to strategic transitions by offering 1) a review of lessons learned from past USAID transitions and mission closures as well as similar efforts undertaken by other bilateral aid agencies; 2) an assessment of the advantages and drawbacks of using quantitative benchmarks to identify countries for transition, as well as an illustrative framework for evaluating countries' transition readiness; and 3) a selection of tools and approaches the US government can leverage to create a path for sustained country engagement.

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Executive Summary

Even before he took office, US Agency for International Development (USAID) Administrator Mark Green affirmed his commitment to the agency's ultimate goal of working itself out of a job. In line with that objective, Administration Green announced plans to pursue "strategic transitions"—moving select countries that have achieved an advanced level of development to a model of US engagement that relies less on traditional development assistance and more on other forms of cooperation, while still enabling the United States to contribute to sustained development progress and to maintain strong bilateral relationships. Transition is likely to include different phases, including a shift from service delivery to capacity building, eventual drawdown of grant funding, and a prudent reduction in USAID presence, which may include closing a mission or office.

This paper is intended to help inform USAID and other stakeholders as the agency embarks on this process by offering (1) a review of lessons learned from past USAID transitions and mission closures, as well as from similar efforts by other bilateral aid agencies; (2) an assessment of the advantages and drawbacks of using quantitative benchmarks to identify countries for transition; and (3) a selection of tools and approaches the US government can leverage to create a path for sustained country engagement. While there are several reasons USAID might choose to discontinue economic aid to a partner country or shutter a mission, this analysis focuses on how the agency could approach advancing middle-income countries along a continuum of engagement that extends beyond traditional development assistance.

i. Learning the Lessons of Past Transitions (and Mission Closures)

In outlining plans for strategic transitions, USAID should seek to draw lessons from its own history and that of other bilateral donors. Based on an examination of past efforts to close missions and transition countries from foreign assistance, it is clear that certain practices offer a greater chance of success.

Among the most critical factors USAID will need to consider are the length of the timeframe afforded to the transition process—a minimum of three to five years is crucial for guarding development gains—and the need to set clear objectives and tasks as part of a transition strategy. A transition strategy must also take into account any countervailing foreign policy objectives and provide sufficient flexibility to allow for iteration and adaptation.

Coordination has also proven important to the success of past transitions. For USAID, getting this element right will require early and frequent communication between headquarters in Washington and staff in the field, as well as with other US government entities—particularly the Department of State. Partner country governments, local civil society, and implementing partners are also vital stakeholders with a critical voice in the transition process. Depending on the context, USAID may also wish to engage other donors operating in a partner country or region. Finally, the agency would be wise to consult Congress regularly throughout the transition process to ensure lawmakers' support.

While USAID should be sure to consider options short of complete exit, as part of any transition planning, the agency will need to evaluate threats to sustaining results achieved with help from past USAID investments and to incorporate plans to mitigate such risks. USAID will also need to develop operational plans that consider the effects of changes to the agency's in-country presence, including adjustments in mission staffing in the short, medium, and long term. Even in the early stages of this process, the agency can strengthen its foundation for future planning by prioritizing the evaluation of programs that might be expected to wind down as part of a forthcoming transition.

Finally, USAID can help ensure its own success—as it looks to reshape partnerships well into the future—by transparently monitoring its transition process and capturing any lessons learned.

ii. Selecting Countries for Transition

USAID has signaled interest in using quantitative benchmarks to evaluate a country's readiness for transition. Using quantitative metrics ensures evidence is brought to bear on an important determination and can lend greater transparency, credibility, and accountability to the process, but employing data-based indicators can also have drawbacks. For one, quantitative indicators will never provide a comprehensive picture of a country's transition readiness—there will always be shortcomings in the data, and the interplay of US foreign policy and national security interests is hard to quantify. Just as important, indicators carry a degree of imprecision and are reported with some time lags. Furthermore, even where quantitative metrics provide a fairly accurate snapshot of a country's current performance in a given area, they are poor predictors of future performance. Finally, partner countries and other stakeholders may be reluctant to embrace the idea of transition—or the loss of access to grant-based assistance likely to accompany it—which could create perverse incentives for underperformance or under-measurement.

For all these reasons, USAID should ensure that it uses quantitative benchmarks in determining readiness for transition, but should avoid using data prescriptively. This paper recommends a two-stage assessment for determining which countries are ready for transition. The first stage would employ quantitative indicators to measure factors such as country need, good governance, business and economic environment, and financing capacity. This first pass would also filter out countries considered fragile, since grant-based support is likely to remain an important tool for US engagement in fragile settings. From the first stage of the assessment, USAID can develop a subset of countries that are high-performers across many of these categories.

From there, USAID should undertake a second stage analysis that relies on both quantitative and qualitative assessments. Certain considerations, such as whether national-level performance masks pernicious disparities, should be applied across the board, but for the most part, measures will vary based on a partner country's goals, progress, and institutional capacity. At this stage of the assessment, USAID should also focus particular attention on the range of policy, institutional, and capacity issues most relevant to the sectors where USAID has concentrated its investments.

iii. Defining US Engagement Through the Transition Process and Beyond

As USAID seeks to define a path for sustained partnership with transitioning countries, the agency should explore a full range of tools beyond traditional, grant-based assistance. This paper outlines a selection of tools that could be employed during the transition process as well as those that might provide avenues for engagement post transition. The utility of any of these approaches will depend on a number of factors. In particular, USAID should give due consideration to local context and past history of agency support.

As a selected country begins the transition planning process, USAID should look to engage in ways that build local and institutional capacity and otherwise prepare the country to take on greater responsibility for advancing future development progress. In this vein, USAID should consider investing in domestic revenue mobilization to bolster tax and revenue collection as well as in strengthening public expenditure management. The agency might also consider new institutions—such as additional government units and umbrella groups for local NGOs—that could support development after USAID's exit. The early stages of the transition process also provide an important opportunity for the agency to double down on country ownership in the design and delivery of remaining grant-based foreign aid. Agreements with the partner country government to disburse upon achievement of verified development outcomes, as envisioned by an approach known as Cash on Delivery, put the partner country in the driver's seat while ensuring the agency pays only for desired results. Additionally, USAID can proactively seek to fill any potential vacuum by facilitating greater private sector engagement through public-private partnerships, using its existing models and new ones, or through participation in Development Impact Bonds, which offer returns to private investors for investments that achieve development results above a specified baseline. The US government might also explore the potential to offer loans to transitioning partner countries where risks can be sufficiently managed.

During the transition process, the agency will need to work with partner country governments and other stakeholders, including Congress, to identify appropriate post-presence tools. Past transitions have involved the establishment of enterprise funds and binational foundations or commissions. These institutions have a mixed record, so it will be important for the agency to examine their histories carefully. Where transitioning partners have valuable technical expertise to offer other developing countries, USAID may explore trilateral cooperation arrangements to leverage this know-how.

While the forms of engagement described above may require continued outlays from USAID, a number of avenues for US engagement post transition come at no net cost to the agency. For instance, the US government could strengthen and consolidate its development finance tools from across the government into a single institution, and better equip it to crowd US private sector finance into partner countries. Some evidence suggests bilateral investment treaties, which mutually commit signatories to a number of core protections for investors, can offer another channel for increasing foreign direct investment. USAID should also work with the United States Trade Representative (USTR), and other relevant US government actors, to review the US trade relationship with transitioning countries to determine whether there are opportunities to facilitate increased market linkages. USAID might also encourage partnerships between US and partner country institutions, such as universities and hospitals.

Another vastly underused opportunity to promote development, absent traditional foreign aid, is through arrangements that enhance labor mobility, such as global skills partnerships—bilateral public-private agreements in which a donor pays for skill creation among workers in a developing country in exchange for an arrangement that allows qualified graduates to work (temporarily or permanently) overseas. While politically challenging in the current US context, these arrangements have the potential to generate extremely high returns while yielding benefits to the US economy. Finally, the United States should provide continued contributions to multilateral development banks, whose lending and investment programs tend to be better matched to middle-income countries' financing needs, and voice its desire to see continued investments that support sustained development progress in transitioning countries.

Introduction

Even before he took office, USAID Administrator Mark Green made public his conviction that the objective of development assistance "should be ending its need to exist."[1] He also acknowledged that the sentiment was not new. Indeed, his predecessors—from administrations of both parties—related a similar doctrine.[2] But Green pledged to make the tenet the "core operating principle" of the United States' largest aid agency.[3] And in articulating plans to pursue "strategic transitions," he lent new import to an age-old question and resurrected a serious discussion within the international development community about when and how USAID should seek to transition partner countries away from traditional grant-based assistance toward alternative forms of engagement.

Green's commitment is made more germane not only by his own reputation and strong relationships in Congress, but also by the threat of significant reductions in foreign aid spending and a rapidly changing global development landscape.[4] Foreign aid is and will remain a vital tool in the US government's tool belt, but, worldwide, official development assistance, though rising in absolute terms, comprises a declining share of development finance. Today there are fewer low-income countries, greater mobilization of private finance, and an emerging set of donors with different rulebooks. These trends speak to the need for donors—including the US government—to do more to embrace a development agenda that expands beyond traditional aid. This is especially true as US global leadership is as vital as ever to alleviate human suffering; seize the opportunities promised by an expanding global economy; address pandemic disease threats; confront the roots of violent extremism; and sustain and build upon development progress.

The primary objective of a strategic transition is to remodel the bilateral partnership, moving away from heavy reliance on traditional foreign aid to alternate forms of cooperation that are better matched to the partner country's needs and often generate mutual benefits. As part of a transition, USAID would seek to shift its programming away from service delivery and toward capacity-building activities while laying the groundwork for legacy programs designed to help sustain progress toward key development objectives. Transition would eventually result in reduced funding to the designated countries, but this should occur as part of a gradual and deliberate process. USAID would also expect to reduce its in-country presence as part of a transition, sometimes—but not always—to the point of closing USAID missions or offices.

As USAID considers how and where to pursue strategic transitions, it has considerable history from which to draw (See Annex 1 for a list of past USAID mission closures). In the early and mid-1990s, facing severe budget cuts and pointed charges by members of Congress

[1] Green, 2017.

[2] Provost, 2011; Tobias, 2006.

[3] USAID's Foreign Aid Explorer shows that the agency typically obligates just under $20 billion of almost exclusively grant-based assistance each year. In 2016, USAID was responsible for 55 percent of the US government's economic assistance.

[4] Moss, 2011.

that the agency's efforts lacked appropriate prioritization, USAID initialized the closing of 27 overseas missions.[5] Amid the contentious climate, some missions (such as Costa Rica) were closed on the basis of country progress; others (like then-Zaire) were shuttered on the basis of poor partnership.[6] More recently, in the face of budget constraints, Administrator Raj Shah (2010-2015) also sought to reduce the number of USAID missions.[7]

To inform USAID's approach to strategic transitions, this paper seeks to answer the following questions:

1. What lessons from previous mission closures, other USAID transitions, and bilateral aid exits by other donor countries should be applied to future transitions?

2. What are the merits and risks of a benchmark-based system for identifying candidates for transition, and what might such a system look like?

3. What tools, including non-grant assistance tools, should the United States bring to bear as part of a plan to transition away from USAID's grant-based financing?

This paper builds on the important work of USAID; other donors; and independent experts on mission closure, aid exit, and other transitions. USAID, in particular, has produced extensive documentation on its mission closure efforts in the 1990s and later, country-specific plans, and sector-level transitions. A number of European donors captured lessons learned as part of prioritization exercises that resulted in closing country offices. And independent experts have discussed a range of issues related to transition, including outlining its importance, identifying candidate countries, and exploring options for post-aid US government investment.[8]

This paper seeks to fill several gaps in existing work. First, by combining lessons of US and European aid transitions, it offers a set of principles based in a wide range of experience. Second, its discussion of how to identify countries for transition presents an in-depth examination of the merits and drawback of such an exercise, drawing on the experience of the Millennium Challenge Corporation's indicator-based country eligibility system, as well as other donors' graduation thresholds. It also recommends a two-stage process for identifying countries for transition and provides a set of criteria as an example of the first stage. Based on the illustrative first stage criteria, the paper identifies 14 countries as potential candidates for transition, though all would require further consideration. Finally, the paper covers several tools, including some less-explored options, the US government could leverage as part of a transition from grant-based aid.

Throughout the paper, the focus is exclusively on strategic transitions for middle-income countries that have achieved a level of development such that grant-based financing is no

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[5] Horne, 1993; Atwood, 2008; Nowels, 1995.

[6] Horne, 1993.

[7] Morales, 2013.

[8] Veillette and Norris, 2012; Runde et al., 2012.

longer the best foundation for a development partnership. There are other reasons USAID may decide to draw down aid—for instance, if a country is a poor development partner; has had a military coup; or has a small, inefficient, or low-priority program. However, this paper does not attempt to address these circumstances. This paper also makes no judgement about humanitarian assistance, recognizing its place as both vital and distinct from bilateral assistance chiefly aimed at achieving development outcomes. USAID is legislatively required to prioritize humanitarian assistance according to need, irrespective of whether countries are otherwise major US aid recipients. Finally, since this paper focuses on USAID transitions, it considers only the "economic assistance" portion of US foreign assistance—that is, aid for programs with a development or humanitarian objective. It does not seek to outline a future for economic assistance grants implemented by agencies other than USAID, nor does it cover military or security assistance grants that are managed by the Departments of State and Defense to benefit recipient government armed forces or enhance partner military capability.[9]

The next three sections of the paper discuss in detail the principles and ideas for carrying out smart strategic transitions. Section 1 explores lessons learned from previous aid transitions, identifying 10 lessons that USAID should consider as it plans to wind down aid in selected countries. Section 2 examines the process of identifying countries for transition; it discusses the merits and limitations of a quantitative approach, proposes an illustrative way to employ one, and identifies, based on the criteria put forth, 14 transition candidate countries. Section 3 looks at pathways for sustained US engagement, exploring a variety of tools the US government could bring to bear as part of a transition, including capacity-building investments during the transition process, as well as post-presence tools.

I. Lessons Learned from Previous Aid Transitions

USAID should approach the process of transitioning partner countries from grant-based assistance in selected countries in a deliberate and principled manner. Below are 10 lessons USAID should consider as it pursues strategic transitions.

1. Define USAID's transition goals, while recognizing broader US foreign policy objectives.

For each transition country, USAID should define its high-level goals and policy objectives, taking into account development opportunities and the nature of the bilateral relationship. Transition objectives will include targets related to sustaining achieved outcomes, continuing certain services or programs previously funded by the agency, realizing a particular type of policy environment, and establishing legacy institutions or ensuring the preservation of other in-country linkages. The transition strategy should describe step-by-step actions required to

[9] The paper focuses on the money USAID manages in country, including the significant funding that the agency manages as a key implementing partner of the President's Emergency Program for AIDS Relief (PEPFAR), which is coordinated by an office within the State Department.

deliver on these goals, responsible parties, key partnerships, guidelines on communication, budgets, timelines, and a plan for measuring clear benchmarks throughout the process.[10]

2. Consider options short of complete aid exit.

During the wave of transitions in the 1990s, USAID's transition policy was framed as "out-is-out." The goal was mission closure, and once a mission was closed, the former partner country would receive no further USAID assistance. At the time, this hardline approach was viewed as a political necessity—one of a number required to save the embattled agency.[11] However, putting forth full exit as the only acceptable option sets up a false choice and can have negative consequences.

After all, the role of the mission is not just to manage contractors and oversee program implementation. Mission staff are also important interlocutors with counterparts in the partner country government. In this role, they open space for reform conversations and help craft and shape policy direction, often using USAID's noted convening power to bring multiple actors to the table. Indeed, research shows that the strength of a development agency's presence on the ground is positively associated with partner country officials' views of the usefulness and influence of its engagement on reform efforts.[12]

While complete withdrawal may be prudent in some circumstances, USAID should have leeway to consider other options. Figure 1 offers a typology of several possible transition types. USAID might use several of these approaches during a single country transition process. However, while they are presented roughly in order of USAID involvement—from greater to lesser—engagement should not be expected to follow a linear progression in every case.

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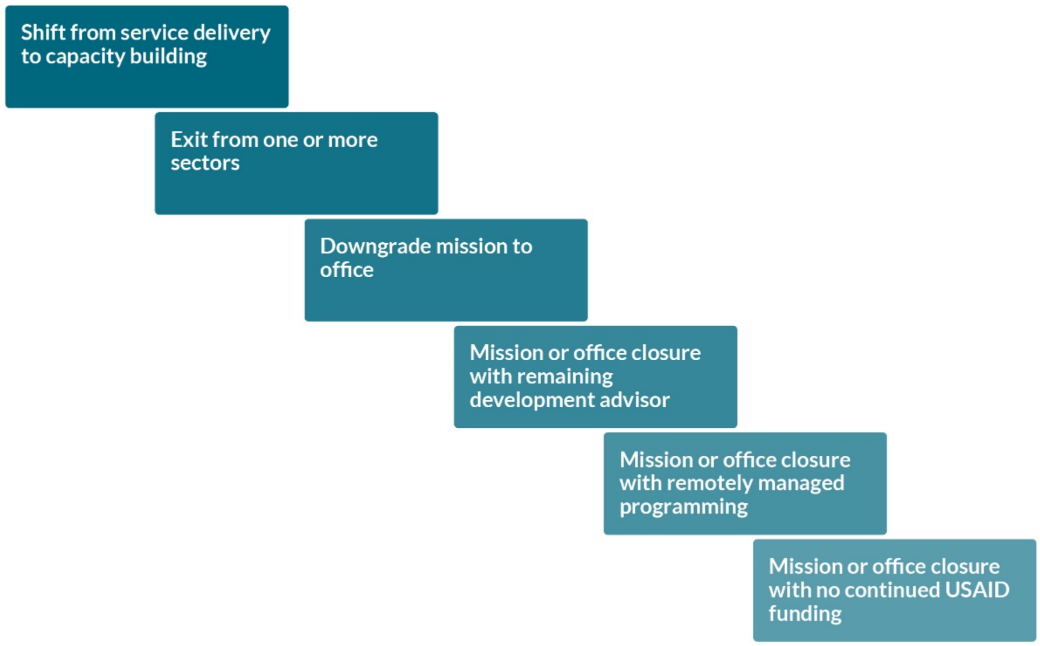
[10] Chaudhry et al., 2012; Slob and Jerve, 2008.

[11] The Clinton administration viewed closing missions as an attempt to demonstrate efficiency and save USAID—primarily by making it less vulnerable to charges of waste. During the 1990s USAID came under fierce criticism from key lawmakers, including Senator Jesse Helms (R-NC) who proposed legislation in 1995 to merge USAID into the State Department and greatly diminish the aid agency's role.

[12] Custer et al., 2015.

FIGURE 1: TYPOLOGY OF POSSIBLE TRANSITION TYPES

from greater to lesser USAID involvement



One alternative to full exit is to phase out assistance in certain sectors, taking into consideration country needs, the broader aid landscape, as well as US interests. For instance, in a partner country, USAID might see sufficient progress to enable a phase out of global health investments but make a strategic determination to maintain democracy and governance programming. A sectoral approach concedes that sectors within a country frequently develop at different rates, something USAID has long recognized.

Even where transition involves greater withdrawal of grant-based assistance, USAID might consider options in which the agency continues to contribute modest amounts of funding to a country. Providing continued financing for a legacy institution, managing small programs from a regional mission or Washington, or leaving a development representative (with minimal local staff) to oversee post-presence engagement are all arrangements that allow USAID to continue supporting development progress in a partner country with limited funding and without significant in-country presence.[13] Maintaining a small development presence post-transition can also function as a pilot light of sorts, in the event a country's status changes and the US government decides to increase assistance.[14]

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[13] For instance, even though Costa Rica's achievements in environmental management and preservation were well known, after the mission closed, Costa Ricans could not be invited to attend a USAID-sponsored regional environmental information exchange program because Costa Rica was no longer a USAID country (interviews with former USAID officials).

[14] Revisiting, and ultimately changing, the status of "graduated" countries is more than hypothetical. USAID's Tunisia mission was closed in 1995, but in the wake of the 2010-2011 revolution, aid ramped up substantially and

3. Recognize that coordination is crucial for effective transition planning.

As the agency undertakes transition planning, coordination between a number of actors is critical.

Between USAID Washington and the field mission: The mission team will shoulder most of the responsibility for implementing a transition plan. Open communication between Washington and post about expectations and timelines fosters greater buy-in from mission staff and can improve execution.[15] Coordination also helps ensure that decisions made in Washington reflect important contextual information from post. For some of the mission closures in the 1990s, unclear messages and guidance to missions from Washington led to confusion within the mission and among host country counterparts.[16]

Ultimately, the mission should retain sufficient flexibility to structure and oversee the transition. With strong local relationships and an understanding of the local context, missions are better positioned to manage coordination with in-country stakeholders, identify parameters that should factor into any specified timelines, and diagnose potential risks associated with overly hasty withdrawal. Missions can also contribute an assessment of partner country institutional capacity, needs, and opportunities.[17]

With other US government agencies: The Department of State is a crucial—and fundamental—collaborator in any transition planning. First and foremost, State will need to support the decision to wind down development assistance in a given country. Such assistance—even if oriented in pursuit of development goals—also serves as a tool of foreign policy. State officials are likely to have opinions about the value of aid programs, particularly in service as a counterpoint abetting difficult bilateral conversations and negotiations.[18] There is anecdotal evidence that State has pushed back on USAID's desire to transition out of certain countries in the past, so it will be imperative for the agency to ensure the State Department is on board with any strategy from the outset.[19] And since State retains considerable budget authority over US foreign assistance spending, department officials will need to be sensitive to USAID's ongoing transition efforts in decisions regarding funding allocations.

USAID reopened an office in 2014. In the 1970s, USAID was planning to close the Costa Rica mission and had taken steps to downsize its presence. When the Sandinistas took over Nicaragua in late 1979, neighboring Costa Rica became a frontline state and aid increased significantly for a period of time (United States Agency for International Development, 1997).

[15] Martin et al., 1999; Hopps, 1999.

[16] Hopps, 1999.

[17] Forsberg, 2010; United States Agency for International Development, 1998.

[18] In addition, USAID typically participates in the International Cooperative Administrative Support Services (ICASS) system—effectively sharing some of the administrative costs borne by State in securing services for its posts overseas.

[19] Former USAID staff report, in what is certainly not an exhaustive list, that State officials have voiced interest, at various times, in maintaining significant aid to Colombia, Russia, Egypt, and Cyprus (United States Agency for International Development, 1997).

Even after giving the green light from a foreign policy perspective, State may be heavily involved in executing the transition plan. The ambassador will have a significant role in communicating transition decisions to the partner country government and framing them in a positive light. And State, which will retain its in-country presence as USAID's declines, should have a say in the development objectives it wants to ensure are sustained or addressed with post-aid instruments. State may also end up taking on a key role in managing legacy arrangements and addressing handover issues.[20]

In addition to the role of the State Department, increased or new engagement from other US agencies may also form an important part of an appropriate glide path for transitioning countries. Agencies including the Overseas Private Investment Corporation (OPIC), the US Trade and Development Agency (USTDA), and the US Treasury's Office of Technical Assistance offer alternative instruments that facilitate mutually beneficial partnerships.

With Congress: USAID would be wise to involve Congress in any decisions around transitioning countries from traditional assistance, as well as in plans for sustaining bilateral relationships. In recent years, Congress has encouraged USAID to pursue transition planning, while advising appropriate consultation with stakeholders. Appropriators went further in the explanatory statement that accompanied a recent spending bill, specifying that consultations with congressional committees should take place before the agency begins any discussions of mission closure with a partner country government.

Congressional consultations will be an important part of identifying countries for transition, especially if prospective candidates are typically relied upon to help fulfill spending directives mandated by Congress in annual appropriations bills. In addition, some members of Congress have constituencies with a strong interest in particular countries based on diaspora presence or commercial ties. Early and open communication with these members is critical for securing their buy-in.

Once transition countries are identified, Congress should also be kept abreast of plans for leave-behind structures sponsored by the US government. This is especially necessary where authorizing legislation or continued appropriations are required. An example from Egypt highlights this. In the early 2000s, USAID was forecasting budget decreases for Egypt over a several-year period, and the mission started planning for a legacy institution. Unfortunately, the agency's plans for a graduate fellowship endowment—which would have required a significant infusion of funds—were not shared with Congress until considerable planning had taken place. The delayed nature of the consultation went over poorly with key members of Congress. In the end, Congress not only nixed plans for the Egypt endowment, but also opted to remove language from appropriations legislation that had authorized USAID to

[20] Swedberg, 2008.

establish endowments supported through contributions of local currency to interest-bearing accounts.[21]

With the partner country government: Past evaluations of aid exit processes undertaken by other donors suggest the degree of participation of local stakeholders in transition planning and implementation is a good predictor of success.[22] The best and most sustainable transition plans were those that enjoyed the interest and backing of the partner government.[23] On the other hand, failure on the part of the US government to convey its intentions clearly, and in advance, was a problem that plagued a number of prior country transitions.[24] Furthermore, where donor country budget constraints motivate transition decisions, these decisions may be less likely to be clearly communicated to the partner country government; experience shows that short-term financial considerations have sometimes trumped regard for the quality of the bilateral relationship.[25]

Early and clear communication and consultation with the partner country is important for avoiding confusion, tension, misunderstanding, and mistrust.[26] This will be particularly critical for partner country governments that have long had a grant-based relationship with the US government; in some cases, the prospect of a change in partnership may not seem credible if US government representatives do not present a clear, united message about the agency's intentions. In addition, as USAID pursues transitions based on development progress, the agency will want to couch the move to a new model of engagement in a positive light—casting it as an achievement to be praised. Lack of clarity about intent, rationale, and timeline can compromise the best efforts to frame the transition as a celebration.

Coordination with the partner country government is also important given that transition plans typically include institutional strengthening activities to prepare the partner government to assume implementation of aid-financed activities after donor support winds down. Particularly where there is an expectation that the partner country will take on more of the financing burden, it is imperative that the partner government has a say in defining priorities as well as identifying capacity and institutional gaps to fill.

With local stakeholders outside government: Transition planning should also include participation from civil society representatives, including the local private sector and nongovernmental organizations.[27] Key to determining an appropriate path for US engagement beyond traditional assistance is an assessment of the institutional capacity of

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[21] In 2010, Congress revisited the issue of establishing an endowment to support the "shared interests of the United States and Egypt."

[22] Slob and Jerve, 2008; Heldgaar, 2008.

[23] Martin et al., 1999.

[24] Runde et al., 2012.

[25] Independent Commission for Aid Impact, 2016.

[26] Hopps, 1999; Martin et al., 1999; Independent Commission for Aid Impact, 2016.

[27] Hopps, 1999.

relevant private sector and NGO actors.[28] The objectives of this process should be a) determining whether certain private actors can take on more responsibility for advancing the development objectives USAID had supported, and b) jointly identifying opportunities for participation in post-aid investments. Transition planning can then include, as necessary, capacity-building investments for designated private sector and NGO actors to play a future role more effectively.

With implementing partners: USAID's often US-based NGO and private sector implementing partners will be directly affected by a decision to transition away from grant funding. These partners will also be on the front lines of program closeout. Early, clear, and ongoing communication with implementing partners helps reduce confusion and ensures that partners' work reflects USAID's transition objectives. USAID must also recognize that implementing partners, who are typically closer to the project and possess a deeper understanding of the context in which the project operates, have valuable information to inform the transition strategy, especially with respect to winding down investments.

With other bilateral and multilateral donors in country: Coordination with other donors is important for three main reasons. First, in the very early stages of transition, a hard look at the division of labor among donors can help USAID identify sectors or areas in which it does not have a strong comparative advantage.[29] This can help inform the agency's decisions to phase out certain investments.

Second, USAID's transition may influence how other donors structure their portfolios. Other donors may be positioned to take forward work previously supported by USAID; they may also be able to advance capacity and institution-building activities to prepare local organizations to assume greater financial and managerial responsibility as USAID withdraws its support in these areas. Of course, donors often have their own priorities, so opportunities for securing alternative funding to support USAID's transition objectives may be limited.[30] However, where the US government has an official voice in setting the agenda of a donor—as is the case with a number of multilateral institutions—there may be greater opportunity for coordination.

Finally, as USAID plans its transition, it is important to know whether other donors are planning their own phase out or exit.[31] A joint withdrawal presents different risks for sustaining development results and may constrain the ability of the partner government (or

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[28] Martin et al., 1999.

[29] Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie, 2016; Chaudhry et al., 2012.

[30] Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie, 2016; de Kemp and Lobbrecht, 2015

[31] Salvado and Walz (2013) estimate that between 2014 and 2030 around 41 countries are expected graduate from the World Bank's International Development Association (IDA), 15 countries are expected to graduate from the African Development Bank's Africa Development Fund, 15 countries are expected graduate from the Asian Development Bank's Asian Development Fund, and up to 38 countries may graduate from the Global Alliance on Vaccines and Immunization (GAVI).

other donors) to take on financial responsibility for driving objectives supported by the United States.

4. Assess and mitigate risks to sustaining development results (i.e., know who will fill the vacuum).

Studies have found that bilateral donors often pay insufficient attention to the host country's development needs during a transition.[32] Phasing out grant funding for services and other development programs carries the risk that development gains will be lost. Reviews of countries' experience transitioning away from health sector and Food for Peace programming identified critical factors for sustaining results, including (1) a sustained source of resources, (2) sustained technical and managerial capacity, (3) a conducive policy and regulatory environment, and (4) sustained motivation and commitment to pursue the identified objectives.[33]

USAID should ensure that one of the goals of transition is protecting the value of its past investments by sustaining and even building upon achieved results. To do so, as part of its transition planning, USAID should (a) identify options for priority areas to be advanced by others, whether local entities (public or private) or other donors, and (b) consider how to employ remaining grant funding to prepare the designated actors to take on new managerial roles and/or financial obligations.[34]

A transition plan should clearly identify, based on coordination with the full range of stakeholders, the parties expected to take on additional financial and service delivery responsibilities as USAID support tapers off. A deep understanding of the institutional and financial capacity of the designated institutions is crucial to this effort.[35] USAID would need to know, for instance, whether the local government has budget line items for covered responsibilities, whether civil society organizations have alternative sources of funding, or whether another donor has planned and budgeted to take over leadership of critical areas and initiatives.

Experience has shown that insufficient planning in this area can undermine the development progress of donors' past investments. A study of European aid exits found that in most cases, donors failed to carry out institutional assessments to identify capacity-building needs that would enable the partner country institutions to deal with the transition from aid.[36] This problem has plagued USAID transitions too. For instance, when USAID ended its population, health, and nutrition work in Tunisia in the 1990s, the implementation capacity

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[32] Independent Commission for Aid Impact, 2016.

[33] Rogers and Coates, 2015; Chaudhry et al., 2012a

[34] Chaudhry et al., 2012a; Independent Commission for Aid Impact, 2016; Forsberg, 2010.

[35] Martin et al., 1999; Netherlands Ministry of Foreign Affairs, 2011.

[36] Slob and Jerve, 2008.

of the government was overestimated. And where the agency expected private sector actors to take on a greater service delivery role, that assumption that turned out to be misplaced.[37]

Similarly, in the absence of sufficient time and support, donor-backed local NGOs and civil society organizations may be unable to secure necessary alternative funding sources—forcing them to reduce activities.[38] A review of the United Kingdom's aid exits from China, India, Vietnam, and Cambodia found that DFID's former civil society partners had to scale back their activities and felt the loss of the United Kingdom's role in brokering arrangements, generating access, and protecting against actions intended to narrow space for civil society to engage in development issues. In contrast, in South Africa, where DFID made a concerted effort to help civil society organizations secure new sources of funding—including centrally managed DFID grants—the results were more encouraging. Similarly, a review of graduations from Food for Peace funding found that gradual withdrawal helped community-based organizations, which had previously relied on US support, shift to operating independently. In Kenya, USAID worked with micro-savings and loan organizations to build their capacity before ending support, certifying their readiness based on specified milestones. As a result, most organizations continued to operate—and even expand—after the Food for Peace project ended.[39] These will be particularly important lessons for USAID to consider in countries where the agency has made progress on past commitments to increase local partnerships.

5. Prioritize evaluation and costing of assistance activities that will be wound down.

Related to the recommendation above, USAID should prioritize the evaluation of its programming in transition countries so it can better understand the potential impact of withdrawing support and what gaps will need to be filled.[40] That is, in order to ensure past development results are sustained, it is crucial first to understand what (and whether) results have been achieved, rather than relying on assumptions about programs' effectiveness.

Similarly, a review of past transitions found that it is helpful to conduct a costing exercise of the goods and services that are expected to be sustained by other actors once USAID support ends.[41] This is a critical input to determining the appropriate actors—and the capacity of those actors—to take on additional responsibilities.

6. Transparently monitor progress on the transition plan.

As specified above, transition plans should include benchmarks toward identified goals and plans for measuring progress. Unfortunately, a review of multiple donors' bilateral exits found that the "phasing in" elements of a transition—the planning for legacy institutions or new non-grant forms of development cooperation—tend to get more attention than the

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[37] Martin et al., 1999.

[38] Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie, 2016.

[39] Rogers and Coates, 2015

[40] Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie, 2016.

[41] Chaudry et al., 2012.

"phasing out" aspects—closing programs and ensuring the sustainability of their results. Careful monitoring of transition processes has been rare.[42]

A commitment to transparently monitoring progress toward the agency's goals of ensuring sustained results can force greater focus on the processes associated with phasing out support. This would ultimately help USAID understand whether the transition is on track, and if not, provide the agency with an opportunity to adjust plans.

7. Ensure sufficient time for the above steps to occur.

Any transition plan must be based on a realistic timeframe—at least three to five years, but often more—to allow for the meaningful implementation of the principles described in this section. Good consultation with a wide range of stakeholders—a factor associated with transition success—and assessing and mitigating risks to development impact, in particular, take time.[43]

Unfortunately, a recurrent theme in past USAID transitions is insufficient time to conduct close-out activities.[44] Overly compressed timelines can (1) create tension and uncertainty about the rationale, objectives, and process that negatively impact bilateral relations; (2) undermine the agency's past development results through insufficient planning for filling the void; and (3) compromise US interests by leaving a gap for competing powers to exploit.[45] In addition, closing down an aid program is very costly in the short run. Breaking leases, paying for severance packages, and selling and shipping furniture are just a few of the direct costs that may be associated with mission closure. It is wasteful—a disservice to both the partner country and American taxpayers—to incur such high costs without planning for longer-term sustainability and partnership management.

Budget pressure often plays into a bilateral agency's decision to wind down aid to middle-income partners. Whether the desire to cut foreign aid spending stems from a fiscal need or ideological position, it can come with a short fuse, as an administration seeks to deliver promised savings. A review of the mission closures in the 1990s found that budget-induced urgency did not permit adequate time for good transition planning.[46]

Budget pressures are a relevant factor for today's transition decisions as well. The Trump administration's FY 2018 budget request, which was submitted to Congress in May 2017,

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[42] Heldgaar, 2008.
[43] Chaudhry et al., 2012a; Netherlands Ministry of Foreign Affairs, 2011; Slob and Jerve, 2008; Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie, 2016. Heldgaar (2008) notes that the European bilateral phase outs that took place in less than two years included very little consultation with key stakeholders. On the other hand, exits with more reasonable timeframes were accompanied by long-term planning, careful stakeholder consultation, and good monitoring of results.
[44] Chaudry et al., 2012.
[45] Runde (2012) notes that China, for example, has shown its interest and ability to initiate development-related relationships with countries where there is unmet demand for assistance (Runde et al., 2012).
[46] Martin et al., 1999.

included cuts of more than 30 percent to the international affairs budget. While Congress has, thus far, rejected the deepest cuts, budget pressures are likely to remain.

Political pressure also has the potential to motivate commitment to an impractical timeframe. As USAID approaches transition with the ambition of creating an environment where US assistance is no longer needed, the agency is likely to feel political pressure to deliver on its goal in the remaining three years of President Trump's current term in office. The agency should work to manage expectations as it launches this process, detailing reasonable goals for stakeholders—such as the successful development (and initial implementation) of well-done transition plans that adhere to principles of good transition practice in designated countries—and avoid influences looking to push less sustainable and arbitrary metrics—like number of missions closed.

8. Balance clarity and flexibility in the transition strategy.

While it is important for USAID to define and clearly communicate its objectives, timeline, close-out plans, and approach to follow-on investments, there should be enough flexibility to accommodate new information and parameters that emerge during the transition process. Changes in the host country government, natural disasters, or global economic shocks, for example, can impact the sustainability of development results and force revisions of transition objectives and approaches.[47] Even in the absence of major contextual shifts, the outcomes of ongoing consultations, findings of institutional capacity assessments, and results of evaluations and costing exercises will emerge over time; the strategy should be able to accommodate this new information accordingly. Missions should also allow enough flexibility to account for changes in Congressional appropriations that may affect the kinds of structures and partnerships the agency can leave behind.

USAID should also be willing to embrace a certain degree of increased flexibility in its current agreements, which may need to be reoriented toward a greater focus on building capacity for an eventual transfer of responsibility.[48] The interventions employed to generate program results may be different than those necessary to facilitate greater local leadership and ensure sustainability.[49] In the 1990s, USAID staff cited inflexible procurement policies and procedures as one of the main internal obstacles to executing transitions in Eastern Europe and the New Independent States.[50]

The third section of this paper describes some of the tools and approaches USAID should consider as it develops plans for partner country engagement throughout and after a

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[47] Chaudry et al., 2012.; Rogers and Coates, 2015
[48] Independent Commission for Aid Impact, 2016; Slob and Jerve, 2008.
[49] For example, a review of Food for Peace graduations identified one program that was able to increase farmer income at the end of the project by providing services to farmers to market their products; however, several years later it became apparent that farmers' inexperience negotiating independently for transportation or sale of their products limited their ability to continue commercializing their products after the projects ended (Rogers and Coates, 2015).
[50] Fischer, 1996.

transition process, including those that require rarely used procurement modalities—which may necessitate greater flexibility.

9. Plan for mission staffing adjustments as part of the transition.

Bilateral donors have found that transition can be a challenge for in-country human and administrative resources.[51] The staff skills needed for winding down programs may be different than those needed to transition to a different kind of development partnership and to shift to legacy structures or other new arrangements.[52] USAID should consider creating a cadre of transition managers with previous transition experience and deploying them strategically. Leadership at the agency should also take steps to convey the importance of this work and recognize staff contributions accordingly.

Transitions are often accompanied by staff downsizing as the aid portfolio shrinks. USAID should be prepared to assess not only how staff changes will impact the transition, but how to preserve relationships critical to the strength of a continued bilateral partnership.[53] The latter may require significant continuity of staff, especially in senior roles, to ensure ongoing interpersonal relations with key local partners.[54]

The mission's local staff deserve special attention. Because foreign service nationals (FSNs) will not simply be reassigned to other posts like US staff, missions must, as specified by USAID policy, plan for special training and assistance to smooth their transition to new employment when the mission downsizes or closes.[55] Former USAID staff highlight the particular importance of doing this well.[56] In Romania, the mission adopted a policy of "Romanianization" as it prepared to transition away from aid programs. This entailed delegating greater leadership responsibility to FSNs, accompanied by training, to make them more competitive for future job opportunities outside USAID.[57] In Costa Rica, the mission designed a scholarship program for local staff to advance their education credentials to build their competitiveness for positions with other employers.

10. Learn and capture lessons.

Overall, the world's donor countries have paid little attention to institutional learning on how to manage aid transitions.[58] Careful monitoring of transitions and their results has been the exception rather than the rule.[59] Context matters enormously, of course, and the experience of one country will not be directly applicable to another. However, common

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51 Forsberg, 2010; Fischer, 1996.
52 Independent Commission for Aid Impact, 2016.
53 This is included in USAID's operational guidance (United States Agency of International Development, 2003).
54 Independent Commission for Aid Impact, 2016.
55United States Agency of International Development, 2003; Chaudry et al., 2012.
56 Authors interviews with former USAID professionals.
57 United States Agency for International Development/Romania, 2006.
58 Chaudhry et al., 2012a; Slob and Jerve, 2008; Independent Commission for Aid Impact, 2016; Heldgaar, 2008.
59 Heldgaar, 2008; Chaudry et al., 2012.

challenges and pitfalls around things like communication, sequencing, and staffing have emerged.[60] Both real-time learning through experience sharing and more formal ex-post evaluation should be built into the transition process.

USAID did put considerable effort into documenting the mission close-outs of the 1990s. While many of the lessons are still applicable, countries, tools, and opportunities have changed quite a bit in the last two decades. In addition, USAID's operational policy provides guidance on planning for transition as well as on closing a mission, but the former is short, primarily emphasizing the need for missions to do this better, and the latter is mainly an administrative checklist. These are critical, but they do not capture the broader lessons described above.

As USAID begins the transition process with select countries, it should build in plans for a post-transition evaluation to take place two to five years after transition objectives (e.g., sector transition, mission closure) were complete. The agency should assess the extent to which the hypotheses put forward in the transition plan—particularly with respect to sustaining development results—were borne out in practice.

II. Identifying Countries for Transition

Since at least the early 1980s, USAID—often at a sector or regional level—has proposed and debated criteria and benchmarks that could signal countries' readiness for transition.[61] For equally as long, attempts to link indicators firmly to transition requirements have been criticized by USAID staff and others concerned that thresholds or standards for country transition cannot adequately address the nuances of a country's political situation, account for different development contexts across countries and regions, or fully recognize the importance of US government foreign policy priorities.[62]

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[60] Independent Commission for Aid Impact, 2016.

[61] For example, in 1987, a working group on policy toward "Advanced Developing Countries"[61] recommended that USAID terminate bilateral assistance to countries that met the following six criteria: (1) steady economic growth; (2) a diversified, export-oriented industry; (3) productive employment for a growing majority of its labor force; (4) a well-trained and educated human resource base; (5) the ability to adapt, develop, and use advanced technology; and (6) sophisticated, responsive, and stable political institutions. In 1988, the Bureau for Program and Policy Coordination created another list of criteria for terminating development assistance: a viable education system; effective institutions; an appropriate and functioning policy framework; and a strong, sustained record of broad-based economic growth. Although a set of indicators to measure these four was developed it was not adopted officially (Martin et al., 1999). In the 1990s, the Bureau for Program and Policy Coordination developed an index of country need for development assistance based on three indicators: per capita gross domestic income, total fertility rate, and infant mortality rate (Hopps, 1999). Efforts to define transition readiness exist at the sub-agency level, too. The Europe & Eurasia Bureau currently uses a "Monitoring Country Progress" system to analyze country progress on (1) economic reforms, (2) governing justly and democratically, (3) macroeconomic performance, (4) investing in people, and (5) peace and security. The Bureau for Global Health also has a comprehensive transition policy.

[62] Martin et al., 1999.

Understanding the Advantages and Disadvantages of Quantitative Benchmarks

The arguments both for and against employing quantitative benchmarks have merit. Using indicators of development progress as a basis for deciding which countries to transition is useful for the following reasons:

1. **It is evidence-based.** To understand key aspects of a country's development progress, you need data to assess the current state of development and trends over time. While indicators cannot cover everything USAID might want to know about a country's transition readiness, data are available for a wide variety of critical measures of growth and development. Relying on data about such things—even when it is imperfect—is superior to overreliance on assumptions.

2. **It adds transparency.** Using an objective and public set of criteria to underpin transition decisions makes the process far more transparent and credible. US taxpayers and partner country stakeholders can review country performance based on the established criteria to understand why decisions are made.

3. **It forces more accountability.** In some cases, USAID may make decisions that are not squarely aligned with its established benchmarks. Countries that surpass set thresholds may continue to receive funding, and countries that fall short may be slated for transition. There may be good reasons for these decisions, and USAID should have leeway to make them. A country that otherwise looks ready for transition could be of strategic importance to the United States, for instance, whereas a country with a lower level of development may be a poor-performing partner or have a small and inefficient program.[63] However, decisions that go against quantitative guidelines should trigger a requirement for additional justification, increasing the agency's accountability for the decisions it makes.

It is also true that transition benchmarks should not be ironclad or overly prescriptive because of the following limitations:

1. **They will never measure development readiness comprehensively.** As critics of efforts to implement an indicator-based transition policy point out, there are many critical elements of readiness and development progress that are not easily measurable. For example, one of the most important criteria for assessing transition readiness is capacity. A review of multiple donors' transitions found that when

[63] Norris and Veillette (2012), for example, suggested that in addition to transitioning high-performing middle-income countries, the US government should also curtail assistance to countries where the USAID program is small or expensive to operate, or where the country is of peripheral bilateral interest, and/or has poor performance with respect to good governance and human rights. European donors like the Netherlands, Sweden, and the UK chose to exit from countries (often those in which they had a small presence) on the basis that concentrating aid in fewer places would increase efficiency and effectiveness (Forsberg, 2010; Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie, 2016; House of Commons, 2011).

donors give too much weight to income level and not enough to institutional capacity, there is greater risk that development gains will not be sustained.[64] However, capacity is not easily measured, least of all in neat cross-country measures.[65] MCC, which famously bases its country eligibility decisions on quantitative criteria, has dealt with the limitations of indicators since its inception. While its "scorecard" is the basis for eligibility decisions, it essentially just circumscribes the list of countries that MCC might consider for new partnerships. When it comes to selections within that list—or decisions about reselection during the course of program development—a lot comes down to supplemental qualitative, country-specific assessments that go into more depth about the policy areas the indicators seek to measure or cover areas the indicators do not capture.[66]

2. **US foreign policy and national security interests matter.** While a country might appear ready for transition based on its level of development, important US foreign policy or national security considerations may argue for continued USAID presence. In addition to supporting partner countries' development objectives, USAID's grant assistance can serve strategic or political purposes—and, in some cases, may be a factor in bilateral negotiations over difficult foreign policy questions. In addition, USAID has significant convening power in many countries and can influence reform conversations. These purposes are notoriously hard to quantify.

3. **Indicators are often measured with some error and/or lag.** Indicators are broadly useful for tracking progress over time or comparing levels across countries. However, they almost always carry some degree of imprecision and are frequently lagged. For instance, poverty data is over 10 years old for a fifth of middle-income countries. A lot of important data on health and well-being come from periodic surveys conducted every three to five years. Even regularly reported indicators often measure events and conditions of a year or two prior. Time lags aside, there can also be weaknesses in data quality. It is not uncommon for indicators to be substantially revised from one year to the next based simply on new and better information rather than a change in performance.[67] One of MCC's key stated reasons for relying on supplemental information outside the scorecard is the acknowledged challenges with data gaps, time lags, imprecision, and other imperfections in the indicators.[68] Basing major aid allocation decisions on the rigid interpretation of imprecise, lagged data compared to an established threshold can lead to unreasonable outcomes.[69]

4. **Snapshot-in-time indicators tend to have weak predictive power.** Because of data lags, indicators are typically somewhat backward looking. However, USAID is

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[64] Independent Commission for Aid Impact, 2016.

[65] Administrator Green recognizes the importance of capacity for assessing transition readiness, and has also acknowledged current limitations in measuring it well (Igoe, 2017).

[66] Rose and Wiebe, 2015.

[67] Consider, for example, exercises to rebase gross domestic product.

[68] Millennium Challenge Corporation, 2017.

[69] Rose, 2017.

ultimately interested in identifying not only countries that perform well now, but also those likely to sustain and improve their development progress over time. Unfortunately, current levels of performance on a given indicator or set of indicators are not clearly predictive of future performance. While assessing past trends can help overcome the limitations of single point estimates, this too remains an imperfect predictor of future performance. MCC's experience illustrates this challenge well. Of the 38 countries that have ever been selected for MCC eligibility based in part on their scorecard performance, governance backsliding or declines in indicator scores (whether or not unaccompanied by policy decline) has led MCC to truncate funding or revoke eligibility for 15 of them (nearly 40 percent).[70]

5. **There is a risk of perverse incentives.** Tying high stakes to indicator performance can create incentives for countries to behave in certain ways. Sometimes the incentives push countries in a desirable direction. MCC's use of indicators to inform eligibility decisions is said to create incentives for countries to improve their performance on the measures used.[71] However, for high performance on MCC's indicators, countries are rewarded with the potential to receive an infusion of grant-based aid. With transition criteria, on the other hand, countries are poised to *lose* access to funding when they surpass a threshold, creating a potential perverse incentive for underperformance or under-measurement. It is hard to predict how individual countries would respond in practice to transition benchmarks. Many stakeholders within a partner country are eager to achieve the "next level" of development status.[72] Thus, countries may seek the reputational and investment or borrowing benefits that may accompany transition.[73] However, there is evidence that countries sometimes pursue strategies to intentionally delay crossing the GNI per capita-based threshold that separates the low-income category from the middle-income category because of the reduction in aid resources they would likely face.[74]

In light of the discussion above, USAID should systematically assess indicators of development progress as part of determining readiness for transition, but should avoid any expectation that data will provide an ironclad formula for transition.

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[70] Rose and Wiebe, 2015. MCC's experience is not completely applicable to USAID transitions, of course, since MCC's universe of countries is lower income overall than the set of countries USAID would likely target for transition.
[71] Parks, 2013.
[72] India, for instance, called for an end to British aid in 2010, and the Dutch reported, as part of their exit from Nicaragua, that the country wanted to become independent from traditional donors (de Kemp and Lobbrecht, 2015; Gilligan, 2012).
[73] Dolan, 2017.
[74] Dolan, 2017; Kerner et al, 2015.

A Two-Stage Benchmarking Process for Determining Transition Readiness

USAID should consider a two-stage process for evaluating measures of transition readiness. In the first stage, the agency would employ measures of need, fragility, good governance, business/economic environment, and non-aid financing capacity to help identify a subset of USAID's 100-plus partner countries that could be near-term candidates for transition.[75,76] From that starting point, USAID would, during the second stage, undertake a more contextual assessment to determine the group of countries ready to begin transition planning from among the subset.

An Illustrative Example of a First-Stage Assessment

This section recommends categories of criteria that USAID should consider as part of its first-stage quantitative analysis of transition readiness. It also assesses the performance of all USAID partner countries on an illustrative list of indicators within each category. The selected indicators merit consideration for inclusion in a broader quantitative system—if USAID adopts one—but they are not put forth as a definitive or exhaustive list. Annex 2 includes several other indicators for each category that are worthy of consideration.

Assuming USAID pursues an approach to transition that employs quantitate benchmarks, the agency should seek to be judicious in its selection of measures. Assessing countries on too many indicators risks losing focus on the overarching issues most relevant in a broad

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[75] MCC also assesses countries on quantitative metrics of policy performance. Though different purposes would suggest the two agencies might want to look at some different criteria, some level of coherence between the two US foreign assistance agencies is desirable. The categories (and many of the indicators) proposed in this paper overlap substantially with MCC's areas of assessment. Both emphasize political and economic governance. And while MCC does not include measures of need in its country scorecard, the need filter is applied earlier on, in defining which countries can be candidates for MCC assistance. There are also important differences. First, this paper proposes a more expansive definition of need that takes into account distributional issues that MCC's GNI-based criteria ignores (Rose, Birdsall, and Diofasi, 2016). Second, MCC assesses an "investing in people" category, while this paper proposes evaluating areas like health, education, and the environment as part of a second stage, depending on the focus of USAID's investments. Finally, this paper includes measures of non-aid financing capacity that MCC does not evaluate as part of its scorecard.

[76] While human capital analysis is important as a determinant of pro-poor growth, it is not included in the first stage of this assessment because performance in a number of the above categories is associated with higher human capital performance. In particular, the inclusion of measures of inequality and multidimensional poverty serve as an initial filter for human capital due to their strong relationship. For instance, all countries in the top quartile of performance on the Human Development Index (HDI) except two (Lebanon and Macedonia) have a girls' lower secondary gross enrollment ratio of over 85 percent. All but one country (Macedonia) in the top quartile of median income have a girls' lower secondary enrollment ratio above 85 percent. All of these countries also have girls' primary education completion ratios of around 90 percent and above. In terms of health, 60 percent of top quartile HDI countries have immunization rates (measured as the average of the percent receiving their third dose of diphtheria-pertussis-tetanus and one does of measles containing vaccine, the calculation used in MCC's scorecards) over 90 percent. All but two others (Ukraine and Montenegro) are above 80 percent. Under this framework, deeper analysis of health and education are better suited for the second stage assessment, especially for countries where these sectors receive USAID support.

assessment. Other indicators should be reserved for the country-specific second stage. Furthermore, because there is often a degree of correlation among indicators that measure similar things, USAID should seek to avoid comprehensiveness to the point of redundancy.[77]

Countries in the Analysis

While there is no single authoritative list of USAID partner countries, this analysis used three filters to create a list of 104 active USAID partners. An initial list was created by taking the set of countries that were either listed in USAID's 2017 Mission Directory or which received economic assistance in the last five years for which data are available (between 2012 and 2016) according to USAID's Congressional Budget Justifications.[78] This list includes countries with full missions, countries with offices (two or fewer US direct hires), non-presence countries, and countries that are part of multi-country missions.[79] The set of non-presence countries that met the above criteria was subject to an additional filter: they were excluded if they received less than $1 million in total non-humanitarian obligations from USAID over the same five-year period (2012-2016) and do not appear in USAID's Mission Directory.[80]

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[77] For example, Freedom House's Political Rights and Civil Liberties indicators measure different aspects of democratic rights and practices but have a correlation of 0.96 (using 2017 data). The World Bank and Brookings Institution's Worldwide Governance Indicators' Rule of Law and Control of Corruption indicators are correlated at 0.94; Government Effectiveness and Rule of Law are correlated at 0.93 (using 2016 data).
[78] Foreign Aid Explorer reports USAID-funded economic assistance in 136 countries in FY2016. The FY2018 Congressional Budget Justification (CBJ) lists actual FY2016 funding for USAID programs in 98 countries (United States Department of State, 2017). USAID's online Mission Directory lists 100 countries as of 2017 (including non-presence countries) (United States Agency for International Development, 2017). For the CBJs, we defined the list of countries as those receiving funding from accounts that either USAID manages or of which USAID implements a large portion: Development Assistance; Global Health – USAID; Global Health – State; Economic Support Fund; Assistance for Europe, Eurasia, and Central Asia; Food for Peace or P.L. 480; and Democracy Fund. Any country that received funding from those accounts between FY2012 and FY2016 is included (United States Department of State, 2017).
[79] This list does not include 30 countries that received minimal funding from USAID in FY2016 according to the Foreign Aid Explorer: Bulgaria, the Bahamas, Belize, Bhutan, Chile, Comoros, Cabo Verde, Costa Rica, Dominica, Fiji, Gabon, Guinea-Bissau, Equatorial Guinea, Greece, Croatia, Hungary, Israel, the Republic of Korea, Mauritius, Palau, the Russian Federation, São Tomé and Principe, the Seychelles, Taiwan, Togo, Tonga, Turkey, Uruguay, and Vanuatu.
[80] Data is from Foreign Aid Explorer. The humanitarian filter corresponds to the OECD purpose code. This filter eliminated Algeria, The Gambia, Malaysia, and Poland from the initial list.

Categories and Indicators of Development Progress

This paper outlines four categories of country-level criteria that USAID should evaluate as part of its first-stage assessment of transition readiness. It includes a set of illustrative indicators for each category that are used for the following country-level analysis. Any of these indicators (or others USAID might consider) require more in-depth evaluation to determine whether the measure's level of rigor, country coverage, periodicity, cross-country comparability, and degree of volatility over time are acceptable to the agency for its purposes.

TABLE 1: CATEGORIES OF DEVELOPMENT PROGRESS AND ILLUSTRATIVE INDICATORS

NEED	**Poverty headcount at \$1.90 a day** *World Bank*	**Median income** *World Bank*	**Human Development Index (HDI)** *United Nations Development Programme*
GOOD GOVERNANCE	**Index of Control of Corruption, Rule of Law, and Government Effectiveness** *World Bank and Brookings Institution*	**Index of Political Rights and Civil Liberties** *Freedom House*	
FRAGILITY	**Fragile States Index (FSI)** *The Fund for Peace*		
BUSINESS AND ECONOMIC ENVIRONMENT	**Regulatory Quality** *World Bank and Brookings Institution*	**Doing Business (distance to frontier)** *World Bank*	**Market Economy** *Bertelsmann Transformation Index*
FINANCING CAPACITY	**Marginal tax rate (MTR) to eliminate extreme poverty at \$2 a day** *Ravallion, 2009*	**World Bank lending group** *World Bank*	

Need: This category is fundamental, and should encompass more than national-level income. The extent and distribution of poverty are also key factors for understanding broad-based well-being. Many middle-income—even upper-middle-income—countries continue to struggle with significant poverty, income insecurity, and inequality.[81] These countries may require financing to support the development

[81] Alonso et al., 2014; Birdsall et al., 2013.

of institutions that can translate their higher average levels of wealth into shared prosperity for their citizens.[82]

Illustrative indicators used in this analysis (see Annex 2 for alternatives to consider):

- **Poverty headcount at $1.90 a day:** This indicator measures the percent of the population living under the international extreme poverty line. It also captures an aspect of distribution and inequality when compared to average income levels or income category.

  Source: World Bank.[83] Data year: most recent per country.

- **Median income:** [84] Median household income is based on household survey data on income or consumption. It is a useful indicator for capturing typical material well-being in a country because it excludes government spending and public and private investment except as they affect household income and consumption. It also corrects for the skewness in income distribution that exists in nearly all countries (unlike average measures like GNI per capita). A middle-income country with low median consumption/income suggests that half or more of the population is insecure in a material sense and a significant share may continue to live in absolute or extreme poverty, even though average per capita income is relatively high. Median income is, in many respects, a better measure for understanding well-being than international poverty lines, which are too low to capture the number of people who are poor by almost any real standard of poverty.

  Source: World Bank via Diofasi, 2016.[85] Data year: most recent per country.

- **Human Development Index (HDI):** An indicator of multidimensional poverty like the HDI captures some of the complexity of poverty rather than focusing on income alone. Though still far from a comprehensive assessment of well-being, HDI captures a health dimension (life expectancy at birth) and an education dimension (mean years of schooling for adults and expected years of schooling for children) along with income per capita. Countries that emerge from the stage one assessment as

[82] Alonso et al., 2014.
[83] World Bank, 2016b.
[84] China, India, and Indonesia report separate urban and rural median income. A national figure was imputed by multiplying the urban and rural medians by the respective share of urban and rural populations and summing the two.
[85] Diofasi and Birdsall, 2016.

possible candidates for transition would require a more in-depth assessment of health and education performance if those sectors receive USAID support.

Source: United Nations Development Programme.[86] *Data year: 2016 report.*

Good governance: Studies of donor exit have found that institutional capacity is key to successful transition.[87] Strong institutions are needed to collect taxes, deliver public services, provide safety nets, ensure rule-based governance, and manage a developed economy.[88] There is also relative consensus around institutional strength as a driver of growth.[89] Democracy, which features as an objective in USAID's mission statement, can be important too. Though the relationship between democracy and economic growth is complex, evidence suggests that democratic rights and practices can promote growth by increasing policy stability, enabling better health and education outcomes, reducing levels of income inequality, lowering corruption, and encouraging higher rates of investment.[90] In addition, equity and equality of opportunity, present in countries with stronger civil liberties, is considered a key determinant of growth.[91] In some cases, high scores on indicators of institutional strength may signal a country's capacity to transition from donor assistance; in other cases, however, strong performance may reflect reform-oriented governments that could use additional donor support as they translate improved policies into broader-based well-being. In addition, there can be a disconnect between a country's governance structure and the relationship the US government has with any particular administration in power in that country. For instance, the United States may have a strained relationship with a particular country leader and disagree with the policy choices made by that country's government even in cases where the country has strong and well-functioning institutions. All this suggests that context remains critical for understanding how to interpret performance, underscoring the importance of a deeper dive into critical areas in the second phase of the assessment.

Illustrative indicators used in this analysis (see Annex 2 for alternatives to consider):[92]

- **Index of Control of Corruption, Rule of Law, and Government Effectiveness:** The Control of Corruption indicator measures expert and citizen perceptions of the prevalence of petty

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86 United Nations Development Programme, 2016.
87 Slob and Jerve, 2008.
88 Alonso, 2014.
89 World Bank, 2010.
90 Stasavage, 2005; Zweifel and Navia, 2000; Tavares and Wacziarg, 2001; Rodrik, 2000; Rigobon and Rodrik, 2005; Helliwell, 1994; Baum and Lake, 2003; Lederman et al., 2005.
91 World Bank, 2010.
92 For brevity, this section employs two indexes of multiple sub-indicators. USAID should consider evaluating the components of the proposed indexes separately.

and grand corruption, as well as state capture by elites. The Rule of Law indicator captures perceptions of the quality of contract enforcement, property rights, the justice system, and the likelihood of crime and violence. The Government Effectiveness indicator captures perceptions of the quality of public services. Given the importance of these factors for the private sector, there is substantial conceptual overlap between the good governance category and the business environment category.

Source: Worldwide Governance Indicators (World Bank and Brookings Institution).[93] *Data year: 2016.*

- **Index of Political Rights and Civil Liberties:** Political Rights measures the extent to which a country has free and fair elections, political competition, a viable opposition, and representation of minority groups in politics and government. Civil Liberties measures the existence of certain freedoms (e.g., expression, assembly, religion) as well as the strength of rule of law to allow economic opportunity for everyone.

  Source: Freedom House's Freedom in the World.[94]*Data year: 2016.*

Fragility: The World Bank estimates that by 2030, 46 percent of the global poor will live in fragile and conflict-affected states, up from 17 percent in 2016.[95] Grant-based foreign assistance will remain a key tool in addressing service gaps in fragile states, as well as in providing humanitarian relief and disaster response during crises, so USAID would be unlikely to transition fragile and conflict-affected states away from grant-based assistance on the basis of their development progress.

Illustrative indicator (see Annex 2 for alternatives to consider):

- **The Fragile States Index (FSI):** The FSI is based on a conflict assessment framework that judges vulnerability to state collapse. It combines content analysis like media analysis, quantitative data, and qualitative expert review to produce 12 risk indicators, categorized into larger groups of cohesion, economic, political, and social and cross-cutting indicators.[96]

  Source: The Fund for Peace.[97] *Data year: 2017 Index.*

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[93] Kaufman and Kraay, 2017.
[94] Freedom House, 2017a.
[95] World Bank, 2016.
[96] The World Bank and the Organisation for Economic Co-operation and Development (OECD) also provide lists of fragile states, and there is substantial (though incomplete) consistency among the three sources.
[97] The Fund for Peace, 2017.

Business and economic environment: Growth is driven by private sector activity, so it is important to assess the extent to which a country's business and regulatory policies serve to strengthen market forces and promote private sector growth. Understanding the environment in which the private sector operates is also critical to assessing the sustainability of post-transition steps that involve private actors.

Illustrative indicators (see Annex 2 for alternatives to consider):

- **Regulatory Quality:** The Regulatory Quality indicator measures the government's ability to implement policies to promote private sector development. The assessment includes aspects of trade policy, price liberalization, access to capital markets, ease of starting a business, quality of competition, regulatory burden, and tax consistency, among other criteria.

  Source: Worldwide Governance Indicators (World Bank and Brookings Institution).[98] Data year: 2016.

- **Doing Business distance to frontier:** The World Bank's Doing Business report assesses business regulation in 11 separate areas, ranging from the time necessary to start a business to the protection of minority shareholder rights. This particular measure is formed by calculating, for 41 indicators, the difference in each country's current score and the score of the best performing economy since 2005. These individual "distance to frontier scores" are then averaged to create an aggregate distance to frontier score.[99] The distance to frontier score is useful for assessing a country's absolute level of regulatory performance and its progress over time.

  Source: The World Bank.[100] Data year: 2016.

- **Market Economy:** This indicator combines two sub-indicators of the Bertelsmann Transformation Index's Market Economy indicator. The selected indicator combines measures of market-based competition, antimonopoly policy, liberalization of foreign trade, the banking system, anti-inflation and foreign exchange policy, and macroeconomic stability.

  Source: Bertlesmann Transformation Index.[101] Data year: 2016.

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[98] Kaufman and Kraay, 2017.
[99] World Bank, 2017.
[100] The World Bank, 2016a.
[101] Bertelsmann Stiftung, 2016.

Financing capacity: This category assesses the extent to which countries have the resource base to finance their own development objectives as a domestic policy matter rather than relying on donor aid. Countries that are better able to redistribute their own resources or access alternative sources of development finance may be lower priorities for scarce grant resources. On the other hand, countries with comparatively few non-aid resources to address the scale of their needs have little prospect of tackling extreme poverty through domestic redistribution; for these countries, grant resources will continue to be important.[102]

Illustrative indicators (see Annex 2 for alternatives to consider):

- **Marginal tax rate (MTR) to eliminate extreme poverty at $2 a day:** The MTR indicator measures a state's capacity to address extreme poverty through redistribution of domestic resources. It is based first on a calculation of how much cash would be necessary to end absolute poverty and then on a calculation of the MTR on the non-poor (those earning over $13 a day) that would be necessary to provide a poverty-level of basic income. A higher MTR suggests a country has more limited ability to address extreme poverty through redistribution. An MTR above 60 percent—the highest rate in developed countries—is considered prohibitive.[103]

  Source: Ravallion, 2009. Data year: most recent, as of 2009.[104]

- **World Bank lending group:** This indicator attempts to capture a country's access to non-aid sources of development finance by examining its ability to borrow on international capital markets. The World Bank graduates countries to International Bank for Reconstruction and Development (IBRD) status based on a combination of per capita income and its assessment of the country's "creditworthiness." The latter is a vague criterion based on components of "political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payment risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks, and corporate sector debt."[105] It is often correlated with—though not the same as—market-evaluated credit ratings, such as Moody's and Standard & Poor's.[106] IBRD status,

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[102] Ravallion, 2012.
[103] Ravallion, 2009.
[104] Currently available data for this indicator are somewhat old and, to date, have not been regularly updated. USAID's interest in using this measure more broadly could presumably provide impetus for it to be calculated (by USAID or another institution) on a more regular basis.
[105] World Bank, 2012.
[106] Morris and Gleave, 2015.

therefore, proxies a country's ability to borrow.[107] This indicator also overlaps conceptually with the business and economic environment category.

Source: World Bank.[108] Data year: 2017.

Setting Thresholds

Once indicators are selected, the next step is setting thresholds to separate higher performers from lower performers. For some indicators, there are predefined benchmarks for different performance levels set by the indicators' creators. For others, thresholds might emerge from research. For indicators with no clearly established benchmark for "good enough" performance, a relative comparison can be useful. For relative thresholds, an individual country's rank is determined not only by its own score but by the scores of all its comparators. The selection of countries to be analyzed—and any future changes to the comparator pool—affect how countries perform. Relative thresholds can be particularly difficult to establish for indicators for which improvement is not always unambiguously unidirectional.[109]

Table 2 outlines the benchmarks chosen for the indicators in the presented analysis. Table 3 compares the performance of 104 USAID partner countries on the indicators listed above, employing these benchmarks to differentiate countries' level of performance.

[107] It does bear mention that the World Bank's lending group categorization is also influenced to a degree by the politics surrounding individual country decisions, as well as the timing of the World Bank's own replenishment cycles; however, these things would tend to delay a country's graduation to the higher level category rather than hasten it. Still USAID would need to be comfortable tying their assessments to the World Bank's process of negotiating country status.
[108] World Bank, 2017a.
[109] The fiscal policy indicator included in Annex 2 is one such example. Having an exceedingly large fiscal surplus is not necessarily good policy.

TABLE 2: BASIS FOR PERFORMANCE CATEGORIZATION BY INDICATOR

NEED

Poverty headcount at $1.90 a day	Median income*	Human Development Index (HDI)
High: Top quartile *Medium*: Second-highest quartile *Low*: Bottom two quartiles	*High*: Score ≥ 10 *Medium*: Score ≥ 5 and < 10 *Low*: Score < 5	*High*: Score ≥ 0.700 ("high human development" and "very high human development") *Medium*: Score ≥ 0.550 and < 0.700 ("medium human development") *Low*: Score < 0.550 ("low human development")

GOOD GOVERNANCE

Index of Control of Corruption, Rule of Law, and Government Effectiveness	Index of Political Rights and Civil Liberties†
High: Top quartile *Medium*: Second-highest quartile *Low*: Bottom two quartiles	*High*: Score ≤ 3 *Medium*: Score > 3 and < 5.5 *Low*: Score ≥ 5.5

FRAGILITY

Fragile States Index (FSI)
High: Score < 100 ("warning," "stable," and "sustainable") *Low*: Score ≥ 100 ("alert")

BUSINESS AND ECONOMIC ENVIRONMENT

Regulatory Quality	Doing Business (distance to frontier)	Market Economy
High: Top quartile *Medium*: Second-highest quartile *Low*: Bottom two quartiles	*High*: Top quartile *Medium*: Second-highest quartile *Low*: Bottom two quartiles	*High*: Top quartile *Medium*: Second-highest quartile *Low*: Bottom two quartiles

FINANCING CAPACITY

Marginal tax rate (MTR) to eliminate extreme poverty at $2 a day	World Bank lending group
High: Top quartile *Medium*: Second-highest quartile *Low*: Bottom two quartiles	*High*: IBRD or non-lending status *Medium*: Blend status *Low*: IDA status

* The upper threshold of $10 a day comes from several studies that use this as a minimum for "middle class" status. (Birdsall, 2010; Kharas, 2010; Ferreira et al., 2012). The lower threshold of $5 a day is based on the median of all countries in the dataset ($5.65).

† The high performance threshold for the combined Freedom House score is a hybrid of Freedom House's threshold for "Free" status (scores between 1 and 2.5) and the threshold of 4 that Freedom House suggested that MCC use to determine which countries pass and fail (a recommendation the agency adopted in 2011. The low performance threshold is equal to Freedom House's "Not Free" status. (Freedom House, 2017; Freedom House, 2006).

TABLE 3. USAID PARTNER COUNTRY PERFORMANCE ON SELECTED SET OF INDICATORS OF DEVELOPMENT PROGRESS

Dark blue=high performance, medium blue=medium performance, light blue=low performance, white=missing data

		Need			Good Governance		Fragility	Business and Economic Environment			Financing Capacity	
Country	**Mission Classification**	**Poverty Headcount at $1.90 a day**	**HDI**	**Median Income**	**Govt Effectiveness + Rule of Law + Control of Corruption**	**Political Rights + Civil Liberties**	**Fragile States Index**	**Doing Business Distance to Frontier**	**Regulatory Quality**	**Market Economy**	**MTR for $2.00 a day**	**World Bank Lending Category**
Afghanistan	Mission		0.48		-1.47	6	107.9	38.1	-1.33	3.50		IDA
Albania	Office	1.1	0.76	6.5	-0.25	3	61.2	68.9	0.19	8.00	8.5	IBRD
Angola	Mission	30.1	0.53	2.9	-1.18	6	90.5	38.41	-1.00	4.50		IBRD
Armenia	Mission	2.3	0.74	5	-0.27	4.5	69.6	73.63	0.25	6.50	100	IBRD
Azerbaijan	Mission	0.5	0.76	7.6	-0.53	6.5	76.3	67.99	-0.28	5.17	23.89	IBRD
Bangladesh	Mission	18.5	0.58		-0.69	4	90.7	40.84	-0.80	5.67	100	IDA
Belarus	Multi-Country Mission	0.0	0.80	17.1	-0.53	6.5	73.9	74.13	-0.94	3.83		IBRD
Benin	Office	53.1	0.49	1.8	-0.57	2	78.9	48.52	-0.53	6.50		IDA
Bolivia	Non-Presence	6.8	0.67	9.3	-0.83	3	78.5	49.85	-0.92	6.83	11.47	IDA
Bosnia-Herzegovina	Mission	0.1	0.75	16.7	-0.40	4	74.6	63.87	-0.17	7.83	0.09	IBRD
Botswana	Office	18.2	0.70	4.5	0.65	2.5	63.5	65.55	0.53	8.33	26	IBRD
Brazil	Office	3.7	0.75	11.4	-0.23	2	65.3	56.53	-0.21	8.00	3.84	IBRD
Burkina Faso	Office	43.7	0.40	1.75	-0.37	3.5	89.4	51.33	-0.40	6.33	100	IDA
Burundi	Office	77.7	0.40	1.2	-1.32	6.5	100.7	47.37	-0.83	4.50	73.56	IDA
Cambodia	Mission	2.2	0.56		-1.03	5.5	87.4	54.79	-0.47	5.00	100	IDA
Cameroon	Non-Presence	24.0	0.52	2.8	-0.97	6	97.8	45.27	-0.79	5.50	100	Blend
Central African Rep.	Non-Presence	66.3	0.35	1.35	-1.63	7	112.1	36.25	-1.43	3.83	100	IDA
Chad	Non-Presence	38.4	0.40	2.4	-1.46	6.5	110.1	39.07	-1.18	4.83		IDA
China	Non-Presence	1.9	0.74	6.9	-0.04	6.5	74.9	64.28	-0.26	7.00	100	IBRD
Colombia	Mission	5.7	0.73	8.4	-0.21	3	80.2	70.92	0.40	7.83	5.6	IBRD
Congo, Dem. Rep.	Mission/Reg. Mission	77.1	0.44	1.1	-1.48	6.5	110	37.57	-1.32	3.50		IDA
Congo, Rep.	Non-Presence	37.0	0.59	2.95	-1.12	6	92.2	40.58	-1.17	4.00		Blend

Cote d'Ivoire	Office	29.0	0.47	2.8	-0.63	4	97.9	52.31	-0.36	5.83	52.26	Blend
Cuba	Non-Presence		0.77		-0.16	6.5	66.3		-1.34	3.00		Non-Lend.
Cyprus	Non-Presence		0.86	21.7	0.84	1	64	72.65	1.05			Non-Lend.
Djibouti	Office	22.5	0.47	3.9	-0.87	5.5	89.7	44.5	-0.70		100	IDA
Dominican Republic	Mission	2.3	0.72	8.1	-0.44	3	70.8	59.35	-0.07	6.67	2.84	Blend
Ecuador	Non-Presence	3.8	0.74	7.8	-0.60	3.5	75.6	57.97	-1.02	5.83	12	IBRD
Egypt	Mission		0.69		-0.57	5.5	90.2	56.64	-0.92	6.00	24.14	IBRD
El Salvador	Mission	3.0	0.68	7.2	-0.52	2.5	72.5	61.02	0.09	8.33	100	IBRD
Ethiopia	Mission	33.5	0.45	2.35	-0.49	6.5	97.2	47.25	-1.10	4.00	100	IDA
Georgia	Mission	9.8	0.77	4.65	0.52	3	78.9	80.2	1.01	7.00	84.56	IBRD
Ghana	Mission	25.2	0.58	3.15	-0.12	1.5	71.2	58.82	-0.23	6.17	100	IDA
Guatemala	Mission	9.3	0.64	5.15	-0.80	4	83.2	62.93	-0.20	6.17	6.68	IBRD
Guinea	Multi-Country Mission	35.3	0.41	2.35	-1.08	5	103.8	46.23	-0.87	5.50	100	IDA
Guyana	Non-Presence		0.64		-0.31	2.5	70.9	56.26	-0.42			IDA
Haiti	Mission	53.9	0.49	1.7	-1.47	5	105.1	38.66	-1.24	4.17		IDA
Honduras	Mission	16.0	0.62	4.6	-0.84	4	79.8	59.09	-0.51	7.00	34.95	IDA
India	Mission	21.2	0.62	2.88	-0.09	2.5	79.6	55.27	-0.31	7.00	100	IBRD
Indonesia	Mission	8.3	0.69	3.76	-0.24	3	74.9	61.52	-0.12	6.67	41.41	IBRD
Iraq	Mission		0.65		-1.45	5.5	104.7	45.61	-1.13	5.00		IBRD
Jamaica	Mission	1.7	0.73	7.9	0.00	2.5	65	67.54	0.16	7.00	0.55	IBRD
Jordan	Mission		0.74		0.24	5	78	57.3	0.05	7.33	0.93	IBRD
Kazakhstan	Multi-Country/Reg. Mission	0.0	0.79	10.45	-0.43	6	66.5	75.09	-0.10	6.67	62.67	IBRD
Kenya	Mission/Reg. Mission	33.6	0.55	2.6	-0.58	4	98.3	61.22	-0.30	6.67	48.23	Blend
Kosovo	Mission				-0.41	3.5		68.79	-0.19	6.83		IDA
Kyrgyz Republic	Mission	1.3	0.66	4.4	-1.02	5	81.1	65.17	-0.35	6.83	8.75	IDA
Laos	Non-Presence	16.7	0.59		-0.69	6.5	84.4	53.29	-0.73	5.50	100	IDA
Lebanon	Mission		0.76		-0.78	4.5	89.6	55.9	-0.34	7.00		IBRD
Lesotho	Non-Presence	59.7	0.50	1.45	-0.33	3	80.9	60.37	-0.39	5.67	100	IDA
Liberia	Mission	68.6	0.43	1.45	-1.00	3.5	95.5	41.41	-0.95	5.17		IDA
Libya	Non-Presence		0.72		-1.78	6.5	96.4	33.19	-2.27	3.50		IBRD
Macedonia	Mission	1.3	0.75	8.15	-0.17	3.5	67	81.74	0.44	8.33	0.53	IBRD
Madagascar	Mission	77.8	0.51	1.05	-0.94	3.5	84.2	45.1	-0.69	5.67	39.79	IDA
Malawi	Mission	70.9	0.48	1.25	-0.62	3	87.6	54.39	-0.84	5.67	100	IDA

Maldives	Non-Presence	7.3	0.70	5.75	-0.47	5	74	53.94	-0.46			IDA
Mali	Mission	49.3	0.44	1.9	-0.81	4.5	95.2	52.96	-0.59	5.83	100	IDA
Marshall Islands	Non-Presence				-0.57	1		51.92	-0.98			IDA
Mauritania	Non-Presence	5.9	0.51	4.35	-0.79	5.5	95.4	47.21	-0.74	4.17	100	IDA
Mexico	Mission	3.0	0.76	7.7	-0.37	3	70.4	72.29	0.29	7.83	0.37	IBRD
Micronesia	Non-Presence	17.4	0.64	1.9	0.08	1	77.1	49.48	-0.97			IDA
Moldova	Office	0.0	0.70	8.25	-0.70	3	73.2	72.75	-0.12	6.83	97.51	Blend
Mongolia	Office	0.2	0.73	8.2	-0.28	1.5	56.6	68.15	-0.08	6.67	8.99	Blend
Montenegro	Multi-Country Mission	0.0	0.81	11.7	-0.01	3	55.2	72.08	0.22	8.00		IBRD
Morocco	Mission	3.1	0.65	5.65	-0.13	4.5	74.2	67.5	-0.23	6.67	6.74	IBRD
Mozambique	Mission	68.7	0.42	1.35	-0.91	4	87.8	53.78	-0.70	5.83	55.64	IDA
Myanmar	Mission		0.56		-0.87	5	96.3	44.56	-0.87	2.50		IDA
Namibia	Office	22.6	0.64	3.4	0.31	2	71.1	58.82	-0.14	7.67		IBRD
Nepal	Mission	15.0	0.56	3.15	-0.80	3.5	91.2	58.88	-0.76	5.83	100	IDA
Nicaragua	Mission	6.2	0.65	5.2	-0.73	4.5	79	55.75	-0.51	6.67	17.24	IDA
Niger	Office	45.7	0.35	1.9	-0.63	4	98.4	49.57	-0.67	5.67	100	IDA
Nigeria	Mission	53.5	0.53	1.8	-1.06	4	103.5	44.63	-0.92	5.67	100	Blend
Pakistan	Mission	6.1	0.55	3.3	-0.77	4.5	101.7	51.77	-0.64	4.83	100	Blend
Panama	Non-Presence	3.8	0.79	13	-0.09	2	53.2	66.19	0.36	8.17	2.79	IBRD
Papua New Guinea	Non-Presence	39.3	0.52	2.3	-0.80	3	86.2	57.29	-0.56	5.33		Blend
Paraguay	Mission	2.8	0.69	11.25	-0.73	3	72.6	59.03	-0.30	6.50	4.4	IBRD
Peru	Mission	3.1	0.74	10	-0.34	2.5	72	70.25	0.51	8.83	4.72	IBRD
Philippines	Mission	13.1	0.68	3.9	-0.31	3	84.7	60.4	0.00	7.17	100	IBRD
Rwanda	Mission	60.4	0.50	1.6	0.29	6	91.3	69.81	0.11	6.83	100	IDA
Senegal	Mission/Reg. Mission	38.0	0.49	2.35	-0.23	2	83.6	50.68	-0.14	6.17	100	IDA
Serbia	Multi-Country Mission	0.2	0.78	11.1	-0.11	2.5	72	72.29	0.06	8.50		IBRD
Sierra Leone	Multi-Country Mission	52.3	0.42	1.85	-0.94	3	91	50.23	-0.93	5.33	100	IDA
Somalia	Non-Presence				-2.08	7	114	20.29	-2.27	1.50		IDA
South Africa	Mission	16.6	0.67	4.6	0.13	2	69.9	65.2	0.21	8.00	23.62	IBRD
South Sudan	Mission	42.7	0.42		-1.84	7	113.8	33.48	-1.86	3.17		IDA
Sri Lanka	Mission	1.9	0.77	5.45	-0.17	3.5	87.7	58.79	-0.10	7.17	69.66	IDA
Sudan	Mission	14.9	0.49	3.7	-1.43	7	111.5	44.76	-1.49	2.67		IDA
Swaziland	Non-Presence	42.0	0.54	2.25	-0.44	6	87.6	58.34	-0.58		100	IBRD

Syria	Non-Presence		0.54		-1.80	7	110.8	41.43	-1.67	2.00		IDA
Tajikistan	Multi-Country Mission	19.5	0.63	4.6	-1.09	6.5	83.8	55.34	-1.09	3.67	100	IDA
Tanzania	Mission	46.6	0.53	2	-0.48	3.5	81.8	54.48	-0.44	6.00	100	IDA
Thailand	Reg. Mission	0.0	0.74	10.75	-0.02	5.5	78.8	72.53	0.17	7.00	2.93	IBRD
Timor-Leste	Mission	46.8	0.61		-0.91	3	90.8	40.88	-0.98			Blend
Tunisia	Office	2.0	0.72	7.6	-0.10	2	74.6	64.89	-0.47	6.17	6.1	IBRD
Turkmenistan	Multi-Country Mission		0.69		-1.39	7	76		-2.09	2.50		IBRD
Uganda	Mission	34.6	0.49	2.5	-0.63	5.5	97.7	57.77	-0.21	7.00	100	IDA
Ukraine	Multi-Country Mission	0.0	0.74	11.75	-0.73	3	75.5	63.9	-0.43	6.17	0.26	IBRD
Uzbekistan	Multi-Country Mission	66.8	0.70		-0.98	7	83.5	63.03	-1.62	2.83	100	Blend
Venezuela	Non-Presence	9.2	0.77	8.4	-1.62	5.5	81.6	33.37	-2.00	3.33	10.95	IBRD
Vietnam	Mission	3.1	0.68	6.15	-0.11	6	70.7	63.83	-0.45	6.00	100	IDA
West Bank-Gaza	Mission	0.1	0.68	8.5	-0.36		79.7	53.21	0.06			Non-Lend.
Yemen	Office		0.48		-1.70	6.5	111.5	39.57	-1.48	4.33	100	IDA
Zambia	Mission	64.4	0.58	1.35	-0.45	4	86.3	60.54	-0.48	6.67	100	IDA
Zimbabwe	Mission	21.4	0.52		-1.25	5	100.5	47.1	-1.72	4.67		Blend

Initial Identification of Countries to Consider Further for Transition Readiness

To develop a short list of potential transition candidates, we looked for countries that met the following two criteria: (1) does not have "low performance" on more than one indicator, and (2) is "high performance" on at least one indicator in each category.

Table 4 lists the 14 countries that emerge from this filter along with the amount of development assistance each received between FY2014 and FY2016.[110]

TABLE 4: COUNTRIES THAT MEET FIRST STAGE CRITERIA FOR TRANSITION CONSIDERATION

Based on the sample analysis above, with USAID disbursements FY2014-FY2016 in millions

MISSION		OFFICE		NON-PRESENCE	
Colombia	$497	Albania	$39	Cyprus	$9
Dominican Republic	$70	Brazil	$27	Thailand†	$16
Jamaica	$47	Tunisia	$41		
Jordan	$2,038				
Macedonia	$52				
Mexico	$171				
Montenegro*	$1				
Peru	$218				
Serbia*	$71				

*Multi-country mission
†Colocation with regional mission
Source: Foreign Aid Explorer

Thailand's bilateral mission closed in 1996 but the country hosts the Asia Regional Mission.

To reiterate, this analysis should not be interpreted as suggesting these 14 countries should necessarily transition from USAID assistance. Instead, the list above features countries that, based on the criteria put forth, merit a deeper look as near-term candidates for transition. It is clear, however, that even though this stage of the assessment suggests these countries may be logical transition candidates, broader strategic and national security considerations may

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[110] Panama, another non-presence country, also met the criteria for consideration for transition, but is largely irrelevant to the discussion due to the negligible and/or targeted amount of aid it receives. Between FY2014 and FY2016, Panama received less than $1 million, largely for crisis response, as well as support for the AmericasBarometer survey.

keep some of them off USAID's transition short list for some time. This would almost certainly be the case for Jordan and, most likely, Colombia and Tunisia.[111]

Since this assessment is intended as a framework to guide considerations pertaining to the selection of candidates for country transition rather than a prescriptive formula, countries that come close to meeting the criteria put forth could also be considered for a deeper analysis when weighing decisions about transition. Bosnia and Herzegovina, India, and Mongolia, for example, fall just short on governance, need, and alternative financing respectively but are otherwise high performers.

Critical Components of the Second-Stage Assessment

While this paper does not attempt to illustrate execution of a second-stage assessment, below are recommendations for important elements to comprise a deeper, country-specific analysis of the overarching policy issues measured in stage one. Whereas quantitative benchmarks drove the stage-one assessment, a second-stage analysis should rely on quantitative and qualitative assessments.

Measures and analysis will vary by country and be based on the individual countries' own goals, progress, and institutional capacity. USAID should also examine whether national-level performance masks important subnational, gender-based, or other disparities.

The second-stage assessment should especially home in on the range of policy, institutional, and capacity issues most relevant to the sectors USAID currently supports with its investments. For example, if USAID's portfolio in a country with near-term prospects for transition is devoted to environmental conservation and justice reform, second-stage indicators of readiness should focus on progress and capacity in these particular sectors. The second stage also provides an opportunity to pursue relevant social sector analysis. For instance, in countries where USAID supports local health systems, second-stage indicators of readiness should focus on burden of disease and health system capacity, both at the national level and in the geographical areas where USAID's support is concentrated. Functional bureaus should have a significant role in determining which indicators of progress and capacity assessments are most appropriate in a given setting. A deeper assessment of progress in areas not supported by USAID in a particular country may be considered, but is less instructive for determining transition readiness since changes in USAID's presence or funding would be expected to yield a minimal effect.[112] The agency

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[111] Jordan has been a close US ally for decades, with the United States supporting its commitment to peace and stability in a troubled region. It currently hosts scores of refugees from the conflict in Syria. The United States has historically provided significant support for Colombia's efforts to combat drug trafficking and secure lasting peace with guerrilla movements. Tunisia is a secure democracy in a troubled region whose progress remains reversible.

[112] There is the question of fungibility, of course. One could make the argument that USAID's support to one sector frees government resources for other sectors. This would suggest that any withdrawal of support that would require the government to devote more resources where it hadn't previously affects all other government-supported sectors as resources are divided differently. While this dynamic should be considered as part of

should also consider the extent to which USAID grants are implemented by local partners in a particular country and assess the quality and success of those partnerships.

Assessment of the Aid Landscape for the Subset of Countries

In addition to assessing country-level characteristics of development progress, the agency should evaluate the aid landscape of countries under consideration for transition. Countries that remain aid dependent—with a high share of official development assistance (ODA) as a percent of GDP—are less promising candidates for near-term transition. For countries whose ODA comes overwhelmingly from the United States, greater consideration is warranted, particularly with respect to (a) the implications of withdrawing such a substantial portion of aid resources and (b) what such ratios suggest about the US government's foreign policy priorities.

In figure 2 below, the red lines represent median values. The resulting quadrants roughly represent countries that:

1) are relatively independent of both aid overall and USAID specifically (bottom left),
2) are more aid dependent but have more limited engagement from USAID (bottom right),
3) receive relatively less aid, but a significant share of the aid they do receive comes from USAID (top left),
4) are more dependent on aid and USAID specifically (top right)

The list of 14 transition candidates that emerged from the analysis above appear in yellow. Most of these are relatively non-dependent on aid, with aid making up less than 5 percent of GNI. Jordan is a notable exception, with aid forming a larger percent of GNI and with a substantial portion of aid coming from the United States. This is consistent with Jordan's longstanding special status as a US strategic partner, as well as recent support for its accommodation of Syrian refugees.

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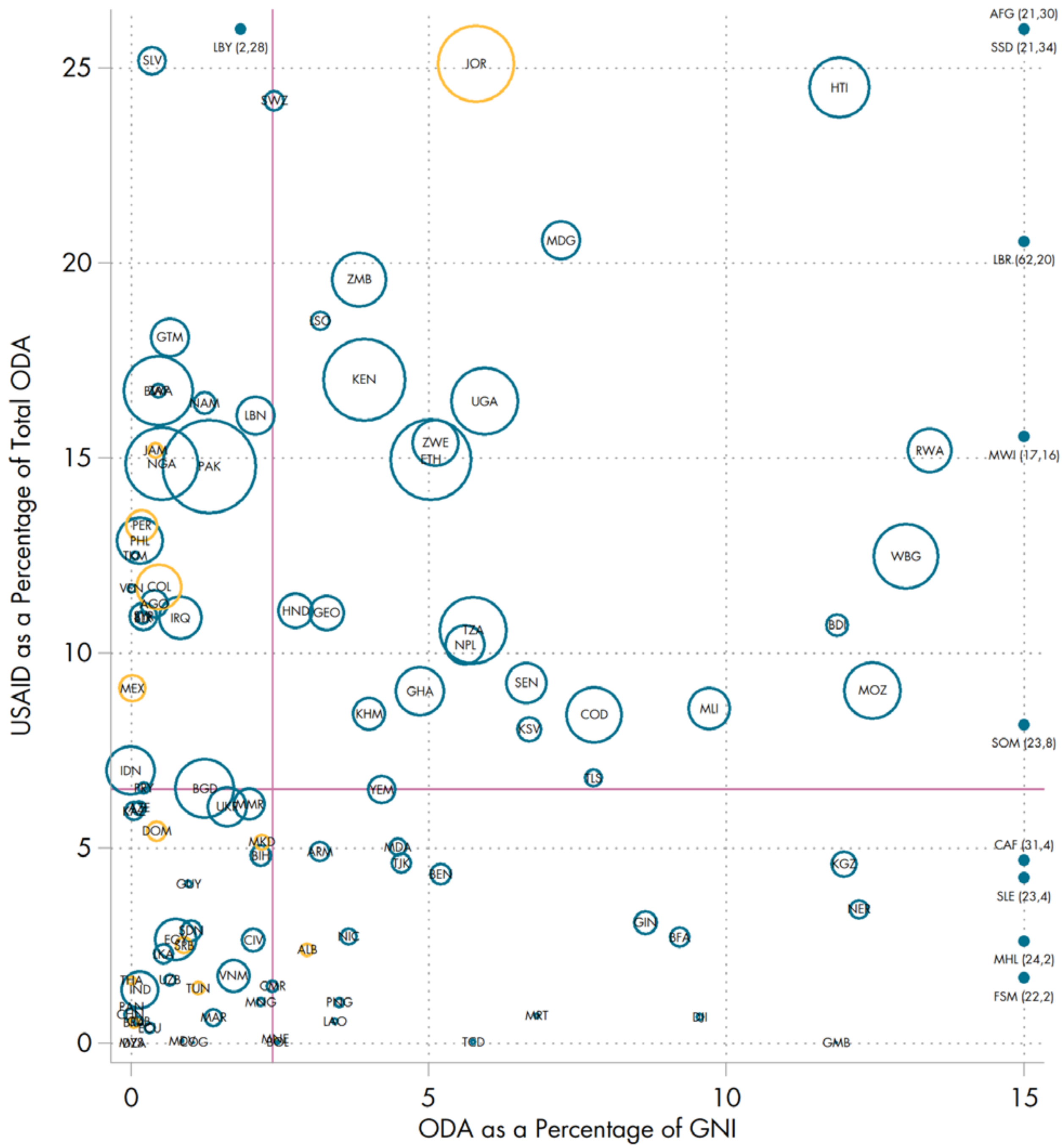
assessing a country's financing capacity, the need for additional progress in areas that USAID is not supporting should not preclude a conversation about whether to wind down support in supported areas.

Figure 2. Aid landscape of potential transition candidates: dependence on aid, and particularly US aid[113]



Partners with greater than 25% USAID/ODA or greater than 15% ODA/GNI are represented by filled circles.
The size of the hollow circle corresponds to the total amount of non-Emergency Response USAID spending.

USAID Partner
Transition Candidate

III. Pathways for Sustained US Engagement: Tools, Approaches, and Leave-Behind Options

As previously described, transition should be a phased process involving deliberate planning, a transition from service delivery to capacity building, eventual drawing down of grant funding, and prudent reduction in USAID presence. This section identifies a selection of tools that USAID and other US government agencies can employ during and after these stages of transition.

USAID's approach to strategic transition—including the avenues of engagement it pursues and the legacy structures it seeks to put in place—will be country-specific. Factors such as the nature of the agency's existing investments, capacity and financing gaps in the partner country, the priorities of the partner country government, and the character of the broader bilateral relationship will be important considerations as USAID initiates transition planning.

TABLE 5: SELECT TOOLS, APPROACHES, AND LEAVE BEHIND OPTIONS

<table>
<tr><th>TOOLS AND APPROACHES TO PREPARE FOR TRANSITION</th><th>POST-PRESENCE TOOLS THAT REQUIRE SOME CONTINUED USAID FUNDING</th><th>POST-PRESENCE TOOLS THAT REQUIRE NO CONTINUED USAID FUNDING</th></tr>
<tr><td colspan="2">Support for domestic revenue mobilization</td><td>Strengthened and consolidated development finance tools</td></tr>
<tr><td colspan="2">Support for the development of new institutions</td><td>Bilateral investment treaties</td></tr>
<tr><td colspan="2">Increased country-led programming</td><td>Engagement through multilateral development banks</td></tr>
<tr><td colspan="2">Outcomes-based financing</td><td>Linkages between US and local institutions</td></tr>
<tr><td colspan="2">Support for public private partnerships</td><td>Technical assistance from the US private sector</td></tr>
<tr><td colspan="2">Lending and guarantees</td><td>Labor mobility</td></tr>
<tr><td></td><td>Binational foundations or commissions</td><td></td></tr>
<tr><td></td><td>Enterprise funds</td><td></td></tr>
<tr><td></td><td>Trilateral cooperation</td><td></td></tr>
</table>

[113] Data on USAID as a percentage of total ODA refers to the percentage total of official development assistance (ODA, as defined by the OECD), in FY2016 to a given country that is USAID-funded disbursements. This indicator excludes activities classified by the OECD as Emergency Response (DAC code 720). The source of the indicator is the Foreign Aid Explorer, and the source of the denominator is the OECD's Creditor Reporter System (CRS). The data from 2001 to present is identical across the two databases, because both the source of the underlying data in both OECD and the Foreign Aid Explorer is the US government's submission to the OECD/DAC on development assistance, other official flows, and private flows to developing countries. ODA as a percentage of GNI is from the World Bank, which cites DAC/OECD's ODA data and World Bank GNI estimates as its sources. It does not exclude Emergency Response activities.

Tools and Approaches to Prepare for Transition

While a chief goal of transition is to move countries from traditional economic assistance to appropriate alternative financing mechanisms, grant-based assistance is likely to play an important role during the transition process. For instance, USAID may seek to focus grant resources on building capacity in partner countries that will help ensure the post-transition sustainability of USAID investments. Each country-specific strategy will serve to identify the right menu of tools to be implemented, along with a realistic timeframe in which to do them.

Domestic Revenue Mobilization

For many years, USAID has supported domestic revenue mobilization (DRM)—efforts to strengthen partner countries' revenue administration and collection, advise on tax reform, encourage a culture of tax compliance, and strengthen public financial management, including expenditure control.[114] The ultimate objective of these efforts is to build countries' capacity to self-finance their own development objectives. While investment in DRM should not be limited exclusively to transitioning countries, targeted investments in DRM may be particularly relevant in these contexts, given that a source of sufficient non-USAID financing is a key factor for sustaining results post-transition.[115] In all cases, DRM efforts must focus due attention on fostering strong public expenditure management and avoiding the potential risks of overburdening the poor with more robust tax and revenue collection policies. Research has shown that, in some cases, extreme poverty can be higher after taxes and transfers than before in some middle-income countries.[116]

New Institutions

Assessments of partner country institutional capacity may point to the need for new institutional structures—such as additional government units or umbrella groups for local NGOs—that would help sustain development progress following transition. USAID can provide seed money for new structures, however, a plan for their financial independence from the agency is critical.

USAID has supported the development of new institutions as part of previous country- or sector-level transitions. In Bulgaria, for example, the agency supported the creation of several new local organizations, including the Magistrates Training Center, an NGO that provided training and legal education to justice system personnel. In 2004, the government of Bulgaria institutionalized the organization as a new government unit, the National Institute of Justice.[117] As part of a transition out of the health sector in Peru, USAID helped the government form a new unit for providing procurement services.[118] And in Nicaragua,

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[114] The Department of Treasury's Office of Technical Assistance (OTA) and MCC also support DRM activities.
[115] USAID has funded DRM efforts in a range of countries from low-income to upper-middle income (Kalow and Rose, 2017). Even in poorer fragile states, DRM assistance can lay the groundwork for building an effective state (Organisation for Economic Co-Operation and Development, 2014).
[116] Lustig, 2015.
[117] Swedberg, 2008.
[118] Chaudhry et al., 2012a.

USAID's transition out of family planning support included support for the creation of a federation of NGOs working in the health sector.[119]

Country-Led Programming

For over 10 years, donors—including the US government—have committed to incorporating greater country ownership into the design and delivery of foreign assistance. Increasing local ownership of donor-funded programming is considered critical for building local capacity to help countries transition from aid and strengthening the citizen-state compact by shifting accountability for results to the partner government.[120] While USAID should pursue greater country-led programming in all the countries with which it works, ceding greater design and implementation responsibility to local organizations and institutions has particular relevance in transition candidate countries. There is reason to believe that donor practices that support and enhance rather than replace local skills, systems, and institutions help develop a country's capability to implement its own development strategy and emerge from aid reliance.[121] USAID's support for country-led programming in transition countries could include existing approaches, like *localworks*—in which missions support a local "resource organization" which, in turn, supports other local organizations—direct local contracting, and/or government-to-government assistance.

Outcomes-Based Financing

Outcomes-based financing mechanisms are an inventive approach to providing partner governments and other local actors greater responsibility for donor-financed development programing. Again, the use of these tools should not be limited to transitioning countries, but outcome-based financing may prove particularly apt in transitioning country contexts due to its emphasis on achieving and sustaining results over time, as well as its capacity-building potential.

USAID's fixed amount reimbursement agreement (FARA) is an existing mechanism that allows the agency to pay a local implementer an agreed price for achieved results. While specified results are often outputs, the mechanism could be applied to outcomes-based financing, as well.

One promising outcomes-based financing model is Cash on Delivery (COD) Aid. With COD Aid, a donor commits to pay a partner country government for the delivery of defined, measured, and verified outcomes. This approach builds local ownership and capacity by giving the partner country government the flexibility and discretion to identify the best ways within the local context to achieve desired outcomes—and to adapt and

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[119] Chaudhry et al., 2012a.
[120] Dunning et al., 2017.
[121] Dunning et al, 2017; Glennie et al. 2012; Organisation for Economic Co-operation and Development, 2011; Global Health Initiative 2012. Knack (2013), however, points out that this commonly held view is based more on theory, intuition, and scattered anecdotal evidence than solid empirical underpinnings.

iterate.[122] COD Aid also reduces risk to the donor since it only pays for verified results above a specified baseline.

Development Impact Bonds (DIBs) and Social Impact Bonds (SIBs) are additional mechanisms ripe for use by USAID in countries where the agency is planning for transition. DIBs finance development programs with money from private investors, to whom a donor agrees to pay a return for achieved (and verified) outcomes.[123] A SIB is similar, but with the partner country government rather than the donor paying the return. One of the key benefits of these models is in attracting private sector investors to engage in a local market. A unique method for building local capacity while engaging private investors is to develop a DIB-SIB hybrid arrangement, in which a donor would support the costly scoping work (price setting, rigorous data collection) and agree to make a portion of the first disbursement for results, while the partner country government would commit to the future incremental payments for outcomes. This would be a new, but not completely uncharted area for USAID. The agency's Development Innovation Ventures (DIV) unit is currently collaborating with other donors to design an outcomes-based payments fund, including a Development Impact Bond.

Public-Private Partnerships

The precise definition of a public-private partnership (PPP) varies across donors, but they are, in their simplest terms, a formal collaboration between a public actor—a donor, for instance—and a private sector entity that leverages the respective expertise, capabilities, and resources of each in pursuit of a development objective. Since 2000, USAID's chief PPP model has been the Global Development Alliance (GDA), a development model through which USAID partners directly with private sector actors in areas of complementary interest. GDAs have potential as a tool for increasing the sustainability of local private sector organizations as part of a transition process.[124] However, missions must bear in mind the significant staff time and resources needed to set up a GDA, as well as their long-term management requirements. If planned to extend post transition as a legacy mechanism, GDA coordinating responsibility would need to be taken on by a regional mission or other unit.[125]

To foster greater capacity to mobilize private finance in transition countries, USAID could expand beyond GDA style PPPs and support partner country governments to develop their own contract PPPs—through which the government would contract with a private entity to build, finance, operate, or maintain some public asset or service in exchange for compensation linked to performance or a share of revenue streams. PPPs are difficult to design and manage in a manner that ensures risks and liabilities are shared appropriately between the public and private sectors. Technical assistance could help interested countries

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[122] Birdsall et al., 2011.
[123] Development Impact Bond Working Group, 2013.
[124] Swedberg, 2008.
[125] Swedberg, 2008.

craft the laws and regulations needed to establish PPP contracts, set up PPP units within the government, and structure or even manage PPP contracts. MCC has a platform for assisting countries interested in pursuing PPPs. The platform offers support at any of multiple stages of the process, including in the development of PPPs according to international best practice and bringing PPPs to market.[126] By statute, however, MCC works in lower income countries than many USAID will likely target for transition. There is plenty of space for USAID to consider providing a similar, coordinated service as it seeks to build the capacity of country institutions across its portfolio, including in higher-income transition countries, where MCC is not active.[127]

Lending and Guarantees

The US government should explore expanding the use of sovereign loans and guarantees as a potential instrument of direct engagement on development objectives. Over 90 percent of the US government's bilateral aid portfolio is grant assistance. USAID has limited authority to provide guarantees, which it has exercised for sovereign bonds issued by Ukraine, Jordan, Tunisia, and Iraq. However, this tool has not, to date, been a core instrument of US development assistance.[128]

This near-exclusive reliance on grants inherently limits the scale and scope of US engagement. Grant dollars are costly and simply cannot be stretched as far as loans—for which larger scale can be tolerated because of expected repayments. Limited lending capability makes it difficult for the United States to invest in certain sectors (e.g., energy infrastructure) in a meaningful way.[129]

Lending carries risks, because it increases the US government's credit exposure. But US agencies could manage those risks by developing a strong framework for defining country eligibility similar to the standards used by the multilateral development banks.[130] Such a framework would likely have substantial conceptual overlap with any criteria USAID might use to determine transition readiness.

While loans could be of much lower cost to USAID than grants, they would require budget authority and appropriation. Under the Federal Credit Reform Act, appropriated funds would only need to cover the estimated long-term cost to the government of the loan, calculated on a risk-adjusted net present value basis over the life of the loan.

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[126] Millennium Challenge Corporation, 2017.

[127] By law, MCC can only work in low- and lower-middle-income countries. Many of the countries USAID would seek to transition are probably upper-middle-income countries, which would not be candidates for MCC assistance.

[128] The State Department's Foreign Military Financing (FMF) program—which falls into the category of military rather than economic assistance—also has lending authority but generally does not use it.

[129] US Development Policy Initiative, 2017.

[130] US Development Policy Initiative, 2017.

Post-Presence Tools

In the transition process, USAID will inevitably reduce its in-country presence, which could, in some cases, include closing a mission or office.[131] The agency can, as it has in the past, continue to fund and manage some limited programs from Washington. Regional missions are another option for remote program management, but with due attention to not overburdening them with a proliferation of small bilateral programs. It will be important to keep in mind that regional missions are better suited for managing programs that deal with issues of regional importance that are relevant across several of the countries they serve. Remotely managed post-presence programs could incorporate the options described in the previous section, particularly where capacity-strengthening activities will remain relevant beyond USAID's departure.

USAID should also explore the possibility of maintaining an officer in the US embassy designated as a development representative or attaché. This individual could help manage the oversight of post-presence programming or legacy mechanisms, serve as an interlocutor with the host country government on development policy issues, and facilitate interactions with other countries in the region on development objectives of mutual interest.

Post-Presence Institutions and Activities That Require Some Continued USAID Funding

Binational Foundations or Commissions

Binational commissions and foundations are jointly established and operated by the US and partner country governments. They may be designed to concentrate on a specific issue or on a broad set of issues.

A prominent example is the Costa Rica-United States Foundation for Cooperation (CRUSA), which was established in 1996 as USAID closed its Costa Rica mission. CRUSA is governed by an assembly of founders with equal representation from the United States and Costa Rica. Since its inception, CRUSA has supported programs and projects to advance development progress in areas such as water resources, renewable energy, and rural economic development. Another example, the America for Bulgaria Foundation, was established in 2009 and supports private sector development, arts and culture, education, and civil society.

Binational foundations and commissions have almost always been funded by endowments which provide continuity of funding over several years.[132] CRUSA is funded by an endowment enabled by the large local currency trust funds USAID had been managing prior to its exit from the country. The America for Bulgaria Foundation's endowment was funded by the liquidation of the Bulgarian American Enterprise Fund. However, not all missions are sitting on piles of local currency, and with changes to a provision carried in annual

[131] Transitioning out of a single sector would not necessarily entail mission closure, but with country-level transition, this is usually the objective.
[132] Martin et al., 1999.

appropriations bills, Congress has made establishing endowments through this mechanism more complicated. And enterprise funds, where they have been established, have had mixed results, not necessarily yielding sufficient funds to support a new foundation. Endowments are also relatively expensive when considering short-term opportunity cost. Generating annual program and administrative funds requires an endowment fund 15 to 20 times as large.[133] And it can be difficult to raise complementary funds from private sources.[134] Foundations may also be supported with ongoing grant funding, which can be managed remotely. However, if USAID maintains a substantial role in a bilateral commission, continued staff demands can be significant.[135] A former USAID official noted with respect to CRUSA, just after its founding, "there was as much a challenge in making the Foundation really work, as a model, as was the previous program of direct assistance."[136]

Enterprise Funds

Enterprise funds are private, nonprofit corporations designed to promote the expansion of the private sector in developing and transition countries through the use of loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, and investment guarantees for locally owned, small and medium sized enterprises (SMEs). They were first developed in the late 1980s and early 1990s with the goals of supporting the private sector and encouraging market-oriented transition in post-communist countries in Europe. Since then, the US government has supported the establishment of enterprise funds in places such as Southern Africa, Egypt, and Tunisia.

Funds are catalyzed with initial grant funding from USAID, though the private sector may contribute additional capital. The model incorporates a dual "bottom line," that is, enterprise funds seek to achieve both positive return on investment and positive development effect. Enterprise funds are managed by an independent board of directors and professional staff and operate largely autonomously from USAID.

Reflows from the sale of enterprise fund assets can generate substantial new resources and have been used to fund post-presence activities.[137] As of 2012, the United States had invested $1.2 billion in enterprise funds in 19 countries, generating $1.7 billion of net proceeds that have been reinvested. The funds also raised $6.9 billion in private capital from outside the US government.[138]

However, reviews of enterprise funds have shown decidedly mixed results: though some have been considered effective, several have been unsuccessful.[139] A number of studies, including one by USAID, point to lessons learned that should be taken on board for any

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133 Martin et al., 1999.
134 Hopps, 1999.
135 Hopps, 1999.
136 United States Agency for International Development, 1997.
137 Swedberg, 2008.
138 United States Agency for International Development, 2013.
139 United States Agency for International Development, 1996; Lancaster et al., 2006.

future investment in enterprise funds, including the need for more active USAID oversight, greater attention to a country's investment friendliness, prioritization of good management (and appropriate managerial compensation), carefully managed expectations about the lag between investment and results, better assessment of the right balance of equity in an investment strategy, consistent funding, and coordinated capacity-building assistance.[140] Some observers have suggested that OPIC is better positioned to take responsibility for supporting the creation and oversight of enterprise funds.[141]

Trilateral Cooperation

Countries transitioning from aid are often well placed to provide relevant and targeted technical assistance and guidance on key issues of shared interest to other developing countries in their region (and even beyond). USAID can help foster these linkages through "trilateral cooperation," arrangements in which the donor pays for travel and other resources while the partner country supplies the human resources and technical expertise.[142] USAID's trilateral cooperation program with Brazil, for instance, has helped leverage Brazilian knowledge and expertise to support agricultural production and food security efforts in Mozambique, Honduras, and Haiti.[143] Trilateral cooperation typically requires only modest financing from USAID, though managing the relationships can consume considerable staff time. While trilateral cooperation efforts do not necessarily require mission presence, proximity is an advantage for relationship management, suggesting these types of programs could be particularly appropriate for an in-country development attaché or regional mission.

Post-Presence Engagement with No Net Cost to USAID

The options below would be at no net cost to USAID; however, many would involve initial outlays from USAID or investment from other agencies.

Strengthened and Consolidated Development Finance Tools

One clear way the United States should seek to transform its financing relationships with high-performing middle-income countries is to encourage and facilitate greater US private investment. The US government has a number of tools by which to achieve this. The Overseas Private Investment Corporation (OPIC) is the United States' primary development finance vehicle, helping American businesses invest in emerging markets by offering direct loans, guarantees, and insurance. The bulk of OPIC's activity is in the kinds of countries—broadly speaking—that might be candidates for transition from grant assistance. Historically, middle-income countries have received the lion's share of OPIC commitments.[144] However, OPIC's authorities are outdated, putting it at a disadvantage compared to other development

[140] Birkelund, 2001; Lancaster et al. 2006; United States General Accounting Office, 1999; United States Agency for International Development, 2013; Fox, 1999; Reinstma and Tarnoff, 1996; Whiton et al., 2010
[141] Leo et al., 2013.
[142] Runde et al., 2012.
[143] United States Agency for International Development, 2016.
[144] Kalow and Leo, 2016.

finance agencies. Providing OPIC with a multi-year authorization, the ability to make equity investments, and authority to retain a modest amount of its profits to increase staff, as appropriate, would allow the agency to do more, while still operating at no net cost to taxpayers.

In addition, a number of complementary tools are spread across multiple agencies, including the US Trade and Development Agency's (USTDA) financing for feasibility studies and technical assistance programs, as well as USAID's own Development Credit Authority, which provides partial risk guarantees to unlock private financing for the agency's development priorities.[145] Combining the dispersed authorities of existing agencies into a single window; eliminating redundancies; and closing existing gaps by equipping the new agency with equity authority, the ability to use technical assistance, and a grants window would strengthen the US approach to development finance—providing another avenue of engagement for transitioning countries.[146] Still, it is important to recognize that US development finance relies on private sector demand and does not offer a strong avenue to carry out government-to-government policy dialogue.

Bilateral Investment Treaties

Bilateral investment treaties (BITs) promote overseas investment by committing signatory parties to a series of mutually assured core protections for investors, such as free movement of capital, limitations on export quotas, the right to most-favored-nation treatment, access to international arbitration, and restrictions against government expropriation.[147] The State Department and the United States Trade Representative (USTR) lead the negotiation process of developing a BIT.

There is some evidence that BITs can help further countries' development by increasing private investment. Several studies have found that BITs, once ratified, are associated with increased foreign direct investment between the signatory countries.[148] Other studies, however, have found a weaker relationship.[149]

Multilateral Engagement

Research suggests the multilateral development banks' lending and investment programs tend to be better matched to middle-income countries' financing needs and align better with some of their key development priorities, like infrastructure investment and private sector development.[150] Because multilateral institutions employ a wide range of instruments in addition to grants—loans, equity investments, guarantees, insurance, and research—providing aid through multilateral channels enables the United States to better target

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[145] Leo and Moss, 2015.
[146] Leo and Moss, 2015.
[147] Leo, 2010.
[148] Egger and Pfaffermayr, 2004; Peinhardt and Allee, 2007; Haftel, 2010.
[149] Tobin and Rose-Ackerman, 2005.
[150] Center for Global Development, 2017.

appropriate and cost effective tools for different initiatives in different country contexts. This suggests that in addition to pursuing bilateral non-grant development finance tools with high-performing middle-income countries, the US government should capitalize on multilateralism as a tool for efficient and cost-effective foreign assistance.

In addition to offering well-targeted tools for countries transitioning from grant assistance, there are several other compelling reasons for the United States to maintain strong support for multilateral banks, including greater coordination with other donors, the ability to leverage each dollar to generate additional lending, greater bargaining power in policy negotiations, efficiency improvements of untied aid, and greater reliance on modalities that support country-led development, among others.[151] With strong direct—and indirect—influence, the US government could leverage opportunities to shape the agenda of a number of multilateral institutions operating in transition countries to complement the transition process.

The US government should capitalize on multilateral development banks' effectiveness—broadly—and their appropriateness for transition countries—specifically—by increasing the share of its aid budget (currently 16 percent) allocated to multilateral institutions (the OECD average multilateral share is 41 percent). The US government should also pursue a multilateral aid review to help prioritize among multilateral institutions according to measures of cost effectiveness and alignment with US policy priorities.[152]

Linkages Between United States and Local Institutions

Legacy structures can include the creation of linkages between similar US and partner country institutions to establish exchange networks. USAID could help link partner country institutions to, for instance, US universities to promote continued training relationships or set up satellite campuses, US medical centers to establish affiliated hospitals, or US municipalities to share technical expertise.[153] As part of transition planning, USAID should determine whether legacy linkages will develop from existing programming—for which costs are already accounted—or whether linkages will need to be built specifically as part of the transition process—requiring additional funds.[154] Once established, these partnerships would be expected to be financially self-sufficient, though the State Department could retain a role in encouraging and monitoring linkages.[155]

Technical Assistance from the US Private Sector

USTDA is a trade promotion agency with a development lens. USTDA's main purpose is to "promote United States private sector participation in development projects in developing and middle-income countries," with particular focus on sectors with strong American export

[151] Morris and Gleave, 2015a; Clemens and Kremer, 2016; Rose et al., 2016.
[152] Center for Global Development, 2017.
[153] Runde et al., 2012; Swedberg, 2008; Martin et al., 1999.
[154] Martin et al., 1999; Hopps, 1999.
[155] Swedberg, 2008.

potential (e.g., energy, transportation, telecommunications, and environment).[156] It fulfills this objective by connecting US private sector expertise to demand in middle-income countries for technical assistance in market-opening activities like legal and regulatory reform related to commerce and the establishment of industry standards. The agency also links foreign firms to US businesses that can help with early investment analysis and feasibility studies.

Labor Mobility

Labor mobility is the single greatest opportunity for enhanced global prosperity.[157] Though policies and programs to reap the economic benefits of labor mobility are relevant for a range of developing countries, the US government should consider their applicability as part of transition planning. One option the US government should explore is skills partnerships—bilateral public-private agreements in which donors pay for skill creation among workers in a developing country in exchange for an arrangement that allows qualified graduates to work (temporarily or permanently) overseas. Because destination-country wages are higher and origin-country training costs are lower, these have the potential to generate very high returns.[158] Another option is increasing short-term work visas to workers from developing countries. Such programs increase worker incomes, most of which return to the sending country as remittances, and add value to the US economy.[159]

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[156] 22 U.S. Code § 2421 - Trade and Development Agency.

[157] Clemens, 2011.

[158] Anderson, McKee, and Talbot, 2017.

[159] Clemens and Postel, 2017.

Annex 1: List of USAID Mission Closures

Graduate Country	Year Closed	World Bank Income Category at Closure*	Reopening Status	Reopening Year	Source
Cyprus	2015	HIC			A
Mongolia	2015	UMIC			B
Ecuador	2014	UMIC			C
Bolivia	2013	LMIC			D
Guyana	2012	LMIC			B
Montenegro	2012	UMIC			B
Panama	2012	UMIC			B
Russia	2012	UMIC			D
Croatia	2008	UMIC			E
Romania	2007	UMIC			F
Bulgaria	2007	UMIC			E
Cote d'Ivoire	2001	LIC	Office	2014	B, G
Lithuania	2000	LMIC			E
Poland	2000	UMIC			E
Slovakia	2000	UMIC			E
Hungary	1999	UMIC			E
Latvia	1999	LMIC			E
Niger	1998	LIC	Office	2014	B, G
Czech Republic	1997	UMIC			H
Slovenia	1997	UMIC			H
Belize	1996	LMIC			H
Cabo Verde	1996	LMIC			H
Estonia	1996	LMIC			H
Gambia	1996	LIC			H
Oman	1996	UMIC			H
RDO Caribbean	1996	n/a			H
Swaziland	1996	LMIC			H
Thailand/Southeast Asia Regional	1996	LMIC	Asia Regional Mission	Concurrently operated	H
Yemen	1996	LIC			H
Argentina	1995	UMIC			H
Botswana	1995	LMIC	Office	2014	B, H
Burkina Faso	1995	LIC	Office	2014	B, H
Cameroon	1995	LIC			H
Chad	1995	LIC			H
Costa Rica	1995	LMIC			I

Guinea-Bissau	1995	LIC			I
Lesotho	1995	LIC			H
Pakistan	1995	LIC			H
Tunisia	1995	LMIC	Office	2014	H
Uruguay	1995	UMIC			H
Afghanistan	1994	LIC	Mission	Unclear	H
RDO South Pacific	1994	n/a			H
Togo	1994	LIC			H
Zaire/DRC	1994	LIC	Mission	Unclear	H
Chile	1993	LMIC			G
Somalia	1990	LIC			G
South Korea	1975	n/a			J
Turkey	1974	n/a			J
Uganda	1973		Mission	1981	K
Colombia	1972		Mission	1976	K
Taiwan	1968	n/a			J
Sierra Leone	1967	n/a	Mission	Unclear	K

*World Bank income categories are available from 1988 onward.

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A. United States Agency for International Development, 2017a
B. Morales, 2013
C. Fieser, 2013
D. Richter, 2013
E. Ardovino, 2012
F. Fore, 2007
G. United States Agency for International Development, n.d.
H. Organisation for Economic Co-operation and Development, 1998
I. Martin et al., 1999
J. Otero, 1995
K. United States Agency for International Development, 1997

Methodological notes on list of mission closures:

USAID has closed missions for a range of reasons. Some were closed because the country was considered ready to transition away from aid (e.g., Costa Rica). Others were closed because the host country was considered a poor development partner (e.g., Zaire) or because USAID was expelled from the country (e.g., Ecuador). Others (e.g., Liberia) closed temporarily for civil wars or safety concerns.[160]

[160] United States General Accounting Office. 1996; Martin et al., 1999; Fieser, 2013.

Though USAID has closed missions since the 1960s, there is no official or definitive list of closed missions and when they closed. This table is assembled from a range of public sources but may not be comprehensive.

Identifying closures and closure dates is confounded by several factors:

- USAID assistance can continue to a country following a mission closure through centrally or regionally managed programs.
- Mission closures can take months or years, and the reported date of closing can be inconsistent across sources.
- Mission closures are planned several years in advance and can be delayed or reversed. For example, in 1996, USAID slated the Zimbabwe mission to close by 2003, but by 1999 the agency determined that a close-out was no longer realistic due to deterioration in economic, social, and political conditions.[161]
- USAID has reopened several previously closed missions as full missions, offices, or regional offices. Cote d'Ivoire, for instance, closed as a mission in 2001 but reopened as an office in 2012. USAID closed Thailand's bilateral mission in 1996, but USAID continues to operate the Asia Regional Mission from Bangkok.

[161] United States Agency for International Development, 1999.

Annex 2: Select Additional Indicators for the Proposed Categories in the Illustrative First-Stage Assessment

The table below identifies a non-exhaustive set of additional indicators that may merit consideration as part of an initial quantitative assessment of transition readiness.

Category	Indicator	Source
Need	Multidimensional Poverty Index	United Nations Development Programme
	Gini coefficient	World Bank's World Development Indicators
Good governance	Open Budget Index	International Budget Partnership
	World Justice Project Rule of Law Index	World Justice Project
	Bertelsmann Transformation Index ("Democracy" and "Management" components)	Bertelsmann Stiftung
	Freedom of the Press	Freedom House
	Operational Risk Rating (government effectiveness risk)	Economist Intelligence Unit
Fragility	Operational Risk Rating (security risk, political stability risk)	Economist Intelligence Unit
	States of Fragility	OECD
	Political Stability and Absence of Violence	Worldwide Governance Indicators (World Bank and Brookings Institution)
Business and economic environment	Operational Risk Rating (macroeconomic risk, financial risk, legal and regulatory risk, foreign trade and payments risk, tax policy risk, labor market risk)	Economist Intelligence Unit
	Illicit Financial Flows	Global Financial Integrity
	Fiscal Policy (government net lending/borrowing as a percent of GDP)	International Monetary Fund (IMF)
	Index of Economic Freedom	Heritage Foundation
Financing capacity	Domestic credit to the private sector as a percent of GDP	World Bank's World Development Indicators
	Foreign direct investment inflows as a percent of GDP	World Bank's World Development Indicators
	Commercial credit rating	Moody's or Standard and Poor's
	Bond spreads	Calculable with data from the IMF

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