

2009 BUDGET MEMORANDUM GLOBAL DEVELOPMENT PROGRAM

OVERVIEW

The Global Development Program seeks to improve the lives and livelihoods of people in developing countries, particularly those living on less than \$2 a day. We have three interrelated strategies to advance this long-term goal: (1) improve the delivery of basic services (e.g., education, health, and water) by increasing the **transparency and accountability** of public spending; (2) improve economic conditions for poor communities by expanding **agricultural markets** for small farmers and agribusinesses; and (3) increase student learning by improving the **quality of education**.

In the Program's first full year of operation after presenting our strategic plan to the Board, we saw early gains in some critical areas, experienced a few setbacks, and began laying the groundwork for increasing investments in East and West Africa. We summarize a few key achievements and challenges below and provide more detailed explanations in each corresponding section of this memo.

Transparency and Accountability

This was a good year for our efforts to increase the transparency and accountability of international development assistance. Debates finally heated up in Washington over the need to modernize and reform the U.S. foreign aid system; at the global level, our grantees helped win an important victory with the launch of the International Aid Transparency Initiative. Unfortunately, looking ahead, the global financial crisis will make it much harder for international donors to maintain their aid commitments to reduce global poverty. On the other hand, tight budgets provide an excellent opportunity to talk about the importance of getting the biggest impact for every aid dollar spent, which bolsters our reform efforts to make aid more effective.

Mexico

2008 was a challenging year for transparency and accountability grantmaking in Mexico. Our efforts focused on implementation of Mexico's 2007 access to information reforms and expanding our work to track public resources, particularly at the subnational level. Grantees working on justice reform contributed to a significant victory with the passage of a landmark constitutional reform of the justice system. Finally, thanks to a collaboration between a grantee in our Agricultural Markets component and two Transparency and Accountability grantees in Mexico, Mexican agricultural subsidies are publicly available for the first time.¹ Users can search official information about who benefits from farm subsidies, how much they receive, where they receive them, and for which crops—all crucial information for budget and anti-poverty program discussions.

Agricultural Markets

¹ The information is accessible in an online, searchable database: www.subsidiosalcampo.org.mx.

In 2008, we saw several disappointing outcomes on global agricultural policies that impact poor farmers. The U.S. Farm Bill did not bring the hoped-for reforms in agricultural subsidies, and the Doha Round WTO negotiations appear to be stalled indefinitely. Nonetheless, there was a silver lining: analysis by Hewlett grantees informed an important food aid reform in the Farm Bill and contributed to a significant shift in E.U. policy on biofuels (eliminating food crops as a source of biofuels). In addition, the worldwide food crisis has highlighted the urgent need to invest more in improving agriculture and agricultural markets in poor countries.

Quality Education in Developing Countries

In 2008, we made significant progress in identifying core grantees in our target countries. Our focus on supporting nationally based, rather than international, organizations has proven to be time consuming; in this sector, many of our potential partners need considerable assistance to improve their capacity to work with governments and to operate at scale. This is an ongoing challenge for our in-country work. On the bright side, early signs indicate that the projects we support are pushing both donors and developing country governments to take a closer look at ways to improve student learning in the classroom. In fact, other donors and organizations are already approaching us to replicate aspects of our strategy. For example, the work we have supported at the Center for Global Development to improve the accountability of education aid—the “cash on delivery” financing model—is garnering support from donors and developing country governments.

COMPONENT: Transparency and Accountability

The goal of our Transparency and Accountability (T/A) work is to improve the delivery of basic services—such as health, education, and water—particularly to poor people. Unfortunately, insufficient resources, “leakages” of funds, and other inefficiencies seriously undermine the availability and quality of public services. Our work seeks to overcome these challenges by ensuring that citizens have the necessary information and oversight to hold governments accountable for how public funds are allocated and spent.

Maximize Revenues to Fund Basic Services

The first step is to ensure that resource-strapped governments have enough revenue to fund the delivery of basic services. As explained in our 2007 strategic plan, we are focusing our efforts on improving the transparency of two key revenue sources for poor countries: natural resource revenue (e.g., from mining or oil) and foreign aid. Both are concentrated flows of funds into the coffers of developing country governments, yet leakages occur for a variety of reasons. For example, because payments from extractive industries are not reported openly, it is difficult for citizens to monitor these public resources and to ensure that they reach the budget.

Meanwhile, inefficiencies in the way international donors allocate and distribute their aid means that fewer funds reach poor citizens in the form of quality public services and that the funds that do reach them are used ineffectively. One key strategy for reducing donor inefficiencies is to make information about the flow of aid more accessible, so that citizens and watchdog groups

can monitor its use in their countries. We provide updates below on our progress on three fronts: natural resource revenue, aid transparency, and U.S. aid reform.

Natural Resource Revenue

In 2008, we continued to support Revenue Watch Institute (RWI)'s work to improve transparency and oversight of extractive industries in resource-rich developing countries throughout the world. Through direct training, technical assistance, and grants to partner organizations in these countries, RWI is building the capacity of civil society organizations, parliaments, and national and local governments to ensure that revenues from the extractive industries are benefiting the country and its citizens. RWI also advances revenue transparency internationally through the Extractive Industries Transparency Initiative (EITI), an emerging global disclosure standard for the oil, gas, and mining sector where participating countries report all revenues received and companies report all payments made in a public, multi-stakeholder process. In 2008, RWI helped eight new countries take steps towards becoming EITI candidates, while the twenty-four countries already on board began the official review process to ensure they are complying with EITI standards. Throughout 2009, RWI will work to secure EITI commitments from emerging market investors (e.g., China) as well as high-income producers (e.g., United States and Canada), and will assist signatories in complying with EITI standards, including support for citizen monitoring of these resources.

Aid Transparency

To improve information about resource flows to developing countries, last year we initiated a joint effort with the Gates Foundation to increase the transparency of donor aid funding. In 2008, our key implementing partner for this effort, U.K.-based Development Initiatives, started an "aidinfo" program to raise awareness about the need for greater aid transparency. Its work was also instrumental in launching a landmark International Aid Transparency Initiative at a high-level donor meeting in September. Nine bilateral aid agencies, four multilateral aid agencies (including the World Bank), and the Hewlett Foundation committed to agree on an improved set of standards for sharing "more detailed and more up-to-date information about aid." In the coming year, our grantees will work closely with the Initiative signatories to flesh out these standards, which will be negotiated over the course of 2009.

U.S. Aid Reform

It is not enough to improve information about where foreign aid is going. We also need to consider how every dollar of development assistance can be allocated and spent to achieve the greatest impact. The United States is the largest aid donor by volume, but unfortunately it is viewed by many development experts as one of the least effective.² Evidence indicates that a reformed foreign aid structure could more effectively *build local capacity* for the improved

² For example, the United States is criticized for allocating aid based on geostrategic priorities, not economic need; for "tying" a large percentage of aid dollars to the purchase of U.S. goods and services, which often undermines the development of local capacity to provide such goods and services; for cumbersome reporting requirements; and for a failure to coordinate efforts with other international donors.

delivery of basic services—our overarching goal for the Transparency and Accountability portfolio.

Over the past three years, Hewlett investments have helped build the case for aid reform and bring together a coalition of committed advocacy partners in the Modernizing Foreign Assistance Network. This group includes three of the leading think tanks working on development and foreign policy issues in Washington, along with some of the largest relief and development organizations (including InterAction, Oxfam America, and Save the Children). In June, this Network released a set of consensus policy recommendations for aid reform, and over the course of the past year, we have seen a number of promising policy developments, including Congressional hearings addressing issues related to modernizing U.S. foreign assistance; renewed commitment to foreign aid reform by policymakers (including the chairman of the House Foreign Affairs Committee); the introduction of a House resolution calling for the modernization of U.S. foreign assistance; Secretary of Defense Robert Gates repeated his call for a strengthened U.S. civilian capacity and increased resources for non-military tools of global engagement; and both political parties specifically addressed aid issues.

Ensure Effective Expenditures on Quality Public Services

Once revenues come into a national budget, these funds must be fairly allocated and well spent in order for poor people to receive quality health care, education, and other public services. Again, corruption and mismanagement can divert funds before they ever reach citizens. This is why we support efforts to improve budget accountability. Even if funds do make it to service providers, service delivery often suffers from gross inefficiencies due to factors like non-competitive bidding for contracts, poorly trained workers, and staff absenteeism. Without objective ways to assess the quality of services (such as direct citizen feedback or impact evaluations), it is very difficult to identify and correct these problems at the local level.

In 2008, we focused on developing a strategy to improve the transparency and accountability of service delivery in East Africa. Along with several partner organizations, we conducted country assessments in Tanzania, Uganda, and Kenya. These studies informed the creation of a new regional initiative to widen access to information about public services and to improve citizen oversight of their delivery. This initiative, called *Twaweza*³, will be led by a Tanzanian and headquartered in Tanzania, with satellite offices in Uganda and Kenya. Twaweza will be funded by a consortium of international donors who have agreed that it is necessary to pool our resources to expand efforts like this more widely. Our 2009 goals are to support Twaweza's launch, help with additional fundraising as needed, and determine whether there are complementary activities that the Hewlett Foundation should support in the region.

In 2009, we will begin conducting transparency and accountability assessments in several countries in West Africa. The major challenge will be to determine whether we can identify a West African regional partner (similar to Twaweza), or whether we will need to engage lead implementing partners in several countries.

³ *Twaweza* is a Swahili word meaning “We can do it!”

Another way to improve the quality of service delivery is to have better evaluations of social programs that can measure the impact they are actually having on the lives of the poor. Working closely with the Center for Global Development, the Gates Foundation and the U.K.'s Department for International Development and others, we have helped establish a new international organization, the International Initiative for Impact Evaluation (3IE), to commission and disseminate evaluations of development projects around the world. Although the process was labor intensive, we cannot overstate the importance of having an independent, objective source of information about which development programs are the most effective in different contexts. 3IE will be a critical partner in realizing one of the Foundation's goals: fostering better evidence for public decisionmaking.

In 2009, 3IE will begin commissioning impact evaluations, aiming to identify six long-term projects and ten shorter studies to begin in the coming year. To date, nineteen research institutes from fourteen countries have joined 3IE as associate members; we expect membership to grow. Meanwhile, support has already been secured from eight major donors, as well as development ministries in Uganda (Finance) and Mexico (Education, Health).

Mexico

This year, Global Development grantees in Mexico made notable progress toward our T/A goals. Our grantees' successes are all the more impressive for having occurred at a time when working on T/A issues in Mexico has become more difficult and even dangerous. Since major Access to Information (ATI) reform passed in 2007, pushback from government authorities on advancing ATI rights and implementing ATI laws has increased, especially at the state level. In addition to the public disclosure of Mexican agricultural subsidies mentioned at the beginning of this memo, other 2008 highlights include:

Tracking public budgets. The Mexican Institute for Competitiveness (IMCO) is building two Web-based calculators. One will show how variation in oil prices affects state revenues; the other will predict state disbursements to municipalities, giving mayors the information they need to hold states accountable for undisbursed funds. In Guerrero, one of Mexico's poorest states, Hewlett grantees helped uncover the misuse of \$4 million in public health care funds. Grantees are now working with local citizen groups to monitor and improve the quality of health services.

Strengthening the regulatory framework for philanthropy and civil society. With the assistance of Hewlett grantees, civic organizations focusing on T/A, gender, youth, migrants, refugees, and public interest law became eligible for tax-deductible status. This improves their chances of gaining equivalency determination status from the IRS and facilitating charitable donations from U.S. sources. Also, Hewlett grantees, working in collaboration with Mexican tax authorities, have developed a Web site to provide information on Mexican public charities, which aims to promote more transparency and confidence in the sector.

Plans for 2009. We will continue to support efforts to address access to information rights implementation and public budget accountability, particularly at the state level.

COMPONENT: Agricultural Markets

The goal of our Agricultural Markets work is to improve economic conditions for Africa's poor, rural communities by expanding markets for smallholder farmers and agribusinesses. This includes (1) reducing trade barriers for agricultural products from African countries; (2) increasing poor farmers' access to competitively priced fertilizer and relevant market information; and (3) giving farmers greater access to infrastructure, such as ports, railroads, sanitation, and electricity.

Agricultural Market Incentives

This year, the challenges were significant. For example, the U.S. Farm Bill was finalized without reforming the subsidies and tariff barriers that disadvantage developing country farmers.

Nevertheless, our grants yielded returns on a few crucial fronts. Research and analysis supported by Hewlett convinced the European Union to reform its sustainability criteria for biofuels—essentially eliminating food crops as a source of biofuels and reducing the overall mandate for biofuels. This research also created doubts in the U.S. environmental and climate change communities about the efficacy of corn-based biofuels in reducing greenhouse gases. In a significant victory, thanks to key analysis supported by Hewlett, African countries refused to sign disadvantageous Economic Partnership Agreements with the European Union. In the United States, a pilot program reforming food aid made it into the final Farm Bill, and, with the food crisis, these reforms are being adopted by the State Department and the World Food Programme in their emergency food aid programs.

In 2007, with support from the Foundation and other funders, grantees started advocating for duty- and quota-free access for developing country products into the United States. Although legislation to accomplish this outcome did not advance in 2008, grantees anticipate that plans for a complete overhaul of U.S. preferential trade programs may be realized through legislation in 2009—creating one preference program out of ten competing programs, and harmonizing and simplifying rules. Such changes could bring substantial gains for developing country agricultural producers.

Consistent with our strategic plan, in 2009 we will reexamine our strategies in international agricultural market incentives and trade while we shift our efforts to improving agricultural market conditions within Africa.

Market Infrastructure, Information and Inputs

As we advance our work in Africa in 2009, we plan to concentrate most of our efforts on developing the African Development Corridors Platform (ADCP) project. In the past few months, we have decided to focus on two corridors—the Central Corridor in Tanzania and Rwanda, and the Zambezi Valley Corridor in Mozambique—which have great economic and development potential, as well as strong political support. We also have decided to center the

ADCP project more tightly on creating economic opportunities for small agribusinesses located near the large anchor infrastructure investments.

To date, most market information systems in Africa that provide farmers with price and product information have not developed sustainable business models. Not enough systematic data are available on small farmers' demand for market information systems or the types of information that different market segments require. In 2008, Hewlett grantees assessed the needs of West African farmers and agricultural traders in Mali, Senegal, Niger, and Guinea. Michigan State University tested new Short Message Systems technology in Mali to replace the current radio/phone/mail system; this technology was then adopted there. In 2009, the Foundation's grantees will be evaluating a number of models for market information systems across Africa and in other developing countries for best practices and sustainability.

In 2008, the high cost of oil led to high prices for fertilizer, making it imperative to integrate African markets for this key agricultural input and so help lower its cost.⁴ In Eastern and Southern Africa, the first regional fertilizer trade association was created, and three additional regional economic communities signed agreements to open markets for agricultural inputs like fertilizers with our key grantee for agricultural inputs, the International Fertilizer Development Center. The Center is also working with the government of Mozambique to attract investors to build a warehouse at the port of Beira, enabling fertilizer buyers to pool their deliveries and lower their costs. In 2009, the Center will continue work with Mozambique to identify policy reforms needed to make the new fertilizer facility viable, and it will encourage the new regional fertilizer trade association to lower barriers to fertilizer trade in Eastern and Southern Africa.

COMPONENT: Quality Education in Developing Countries

Remarkably, many students in India and sub-Saharan Africa attend school but never learn how to read. The goal of the Quality Education in Developing Countries Initiative (QEDC) is to improve student learning in the developing world. We are pursuing three types of activities to maximize impact within a select set of countries. First, by ensuring that citizens and governments know that children are learning very little, we help create demand for change. Second, by evaluating and supporting instructional models that can work in public schools, we offer evidence of potential solutions for improving students' reading and math skills. Finally, we will support work designed to ensure that governments allocate and effectively use sufficient funds for education. By the end of 2008, we will have completed country assessments, determined grantmaking priorities, and identified partner organizations in India, Mali, Kenya, Uganda, and Tanzania.

Progress in 2008

Although data are collected about whether children attend school in sub-Saharan Africa, almost no information exists on whether they learn anything. Parents, governments, and educators therefore show little awareness of the extent to which schools are failing to teach students even basic reading and math. In January 2008, our grantee Pratham released its third Annual Status of

⁴ Although the falling price of oil should ease fertilizer prices, physical shortages of other fertilizer components will keep prices high.

Education Report (ASER) about student learning levels in India. The report (which shows, for example, that nearly one-third of first graders in India do not recognize the letters of the alphabet) has attracted attention from individual citizens and the Indian government, spurring the government to increase efforts to improve quality.

This year, we supported an East African team to go to India and see ASER in action, with an eye toward replicating its success. The team returned home excited about the galvanizing effect the approach could have in East Africa and, with our support, is planning the first independent civil society assessments of student learning in Kenya, Tanzania, and Uganda. We have also coordinated with other donors, including the World Bank, on baseline assessments of reading and math in the early grades of African primary schools that we—and governments—can use to assess progress over time. These efforts have helped us increase attention to, and accountability for, learning outcomes in our priority grantmaking countries and among influential donors.

In addition to raising awareness about low levels of student learning by the end of 2008, we will support six institutions with models for teaching children in India, East Africa, and West Africa. These models have already directly reached over 8 million children. If teachers can master these low-cost, contextually relevant teaching methods and materials, these models could be implemented in thousands of government schools. That is, if the independent evaluations we support show a positive impact on student learning, we are hopeful that governments will mainstream these models to serve millions more students. We are already seeing evidence of improvements in student learning in the models we supported in India. As such, some state governments are beginning to expand these models to more schools.

Although the interventions we support are intentionally low cost, they can be implemented by governments only if sufficient resources are made available and used effectively. Unfortunately, international aid to education remained flat this year. We have therefore commissioned a study to determine the obstacles that prevent developed countries from meeting their education commitments, with substantive input and interest from the U.K. government's Department for International Development. The promising news this year is that donors are increasingly discussing the quality of education that children receive, and some are beginning to allocate money accordingly. For example, early conversations have generated some interest among donors and developing countries to pilot a "cash on delivery" financing model developed by the Center for Global Development, a Hewlett grantee. Such a pilot would assess whether paying a country only for actual progress against a learning goal will increase the effectiveness of aid in improving learning outcomes.

Plans for 2009

By the end of next year, we expect to have a strong network of grantees in selected African countries and will likely focus on a few states in India. We will further refine our country strategies and expand our portfolio of grantees in Mali, Uganda, and Kenya, and possibly in Tanzania, Senegal, or Ghana.

With Pratham's leadership, we expect that civil society awareness of, and attention to, learning outcomes in India will continue in 2009. In Kenya, Tanzania, and Uganda, the first citizen-led

assessment of student learning will have started, and planning for a similar activity will be underway in West African countries. We will also have baseline data on student learning in Kenya, Uganda, Mali, and Senegal. These assessments should stir global debate and begin to prompt government action to improve education outcomes.

As the debate about learning heats up, we will also be armed with emerging evidence on what to do about the problem. In 2009, we expect that an impact evaluation of Pratham's work will show improved reading and math skills among children reached by its "Read India" project. Building on this success, we anticipate that state governments will continue to adopt Pratham's techniques as their own. Likewise in Africa, our instructional models and impact evaluations will be demonstrating which instructional practices improve student learning.

We expect that it will continue to be a challenge to find organizations working in our areas of interest and ready to operate widely enough to garner the attention of government and other development agencies. Therefore, we will continue to provide planning grants and other assistance to help develop strong in-country institutions that will be able to support education over the long run in our priority countries. Furthermore, in order to strengthen the impact of these projects and determine the elements of successful models that can be scaled in other countries, we will bring together leaders of these organizations with materials developers, teacher trainers, and evaluation staff to share what is working.

Given the current economic turmoil, it is unlikely that donor funding for education will increase in 2009. This does, however, create space for more discussion around the effectiveness of funds that are available. With the study which will identify obstacles blocking donor assistance to basic education, and the evaluation of our current advocacy grantees, we plan to refine our advocacy strategy for ensuring that aid money is better spent—that is, improving actual learning, not just buying more inputs. We expect donors, NGOs, and governments to continue to show greater receptivity to improved use of resources to advance student learning. We will monitor indicators to see whether education financing is, indeed, striking a better balance between expanding enrollments in school and ensuring that learning happens.

Knowledge Building for Development

Think Tank Initiative

The goal of the Think Tank Initiative is to strengthen policy research organizations based in developing countries through a combination of long-term funding and targeted capacity-building support. In late 2007, the Foundation approved a grant to the International Development Research Centre (IDRC) to implement this initiative. This year we made the leap from planning to implementation.

In early 2008, Hewlett staff worked closely with IDRC to hire a program leader for the Initiative and supervise a team based in Ottawa and the IDRC regional offices. By August, IDRC had a seven-person team in place, including two program officers at each of the regional offices in Nairobi, Kenya, and Dakar, Senegal. These four program officers include nationals from Uganda, the Gambia, Mali, and Cameroon, and all have significant experience working with think tanks on the continent.

In April, the International Advisory Group for the Initiative met for the first time and gave input on an application design and a selection process for the first phase of the program. In June, IDRC launched the first call for proposals, inviting policy research institutes in eleven East and West African countries to apply for four-year institutional support grants. IDRC received nearly 300 applications, far surpassing our expectations and confirming strong demand for this type of support.

Over the last few months of 2008, IDRC staff vetted the applicant pool and assessed a short list of applicants, through peer review of research products, institutional visits, and “reference checks” with external stakeholders. Final funding recommendations will be made in early 2009; IDRC staff will then negotiate the terms of each grant agreement, including establishing annual benchmarks for monitoring purposes. Early next summer, IDRC plans to launch the Initiative in two additional regions: South Asia and Latin America. In anticipation of this expansion, IDRC will hire and place Initiative program officers in its regional offices in South Asia (New Delhi) and Latin America (Montevideo).

In 2008, the Bill & Melinda Gates Foundation decided to join the Initiative at a funding level comparable to Hewlett’s commitment—in effect, doubling the size of the Initiative.

Knowledge Building in Mexico

Hewlett’s long-term investments in Mexico’s knowledge infrastructure paid dividends in 2008 with the passage of a constitutional overhaul of the country’s justice system. For the first time in Mexican history, defendants will enjoy presumption of innocence and have the right to an oral trial before a judge. Hewlett-supported think tanks and academic institutions (such as CIDE and CIDAC) created independent, comparative, nonideological evidence that contributed to this reform. The results of investing in policy-relevant knowledge and data exemplify how important it is to support local institutions that can identify and propose solutions to the most serious barriers to economic and social development nationwide.