

# **The Story Behind the Alliance**

**The Balkan Trust for Democracy**  
Europe & Eurasia Region

## **The Idea**

In the summer of 2000, the German Marshall Fund of the United States (GMF) learned that resources generated by USAID's Business Development Program (BDP) in Bosnia-Herzegovina might be made available for use outside Bosnia-Herzegovina. The 2001 Foreign Operations Appropriation Act, in fact, authorized the use of those funds elsewhere in Central and Eastern Europe, subject to Congressional consultations. GMF envisaged utilizing a portion of this funding to expand its democracy-building programs in Southeast Europe, possibly through an endowment. GMF already considered USAID an important ally in its development assistance plans and therefore met with officials from USAID and other US government agencies to discuss ways that GMF could further its mission through a shared development agenda.

## **Forging the Relationship with USAID**

GMF began its planning for a trust fund to promote ethnic tolerance in the Balkans through discussions with the USAID Bureau for Europe & Eurasia, though it maintained contact with field missions. GMF sought a partnership based on their vision, but learned that USAID would not award any of the reflow funds for a regional endowment non-competitively. Instead, a Request For Applications (RFA) was issued to use \$10 million in funding from the reflow funds for no more than half of a regional endowment that would promote democracy in Southeast Europe. The delay, while USAID obligated the funds and prepared the RFA based on its vision of how to form an endowment, was a challenge to GMF. The organization was already collecting funds for its own endowment, but had to wait to decide how to use them to greatest effect. If GMF was to succeed in partnering with USAID in addressing their shared goal of creating an endowment promoting democracy in Southeast Europe, the organization faced the additional burden of a full and formal application in response to the RFA, which was predicated on a vision for the region somewhat different from the GMF concept.

The RFA was amended twice and specific questions were asked during the competition process, each requiring written responses adding to the cost and time of application. But GMF eventually won the competition, and a Cooperative Agreement was signed in January 2003. GMF then began the completion of steps required prior to disbursement of USAID funds to establish the minimum structure of the endowment. Funds were disbursed in July of that year.

## **Selecting Other Partners**

Even before formalizing the relationship with USAID through the cooperative agreement, GMF met with representatives of the Charles Stewart Mott Foundation, a private philanthropic organization based in Michigan working on civil society issues in Central and Eastern Europe, and asked whether they would like to partner. Though the partnership between GMF and USAID had not yet been established, the Mott Foundation agreed to contribute \$5 million. This funding was included in the GMF submission to the USAID RFA, raising the level of private funding in their proposal 50 percent higher than the minimum required. Phillip Henderson, GMF's Director of Programs, said of the Mott Foundation: "They had the patience to wait another 18 months until the alliance became effective."

### *The Main Partners*

Apart from the initial partners (USAID and the Mott Foundation), GMF contacted the Government of Greece (GoG) because the country held the EU Presidency in the first half of 2003, when the Balkan Trust for Democracy (BTD) (as the regional endowment was named) was just beginning. One of Greece's priorities in its position in the presidency was to contribute to democratic consolidation in the Balkans, and GMF persuaded the GoG that joining the alliance would be a strategic fit with the country's approach to the region. The partnership could also be seen as a gesture of transatlantic cooperation at a time when, due to foreign policy disputes over Iraq, only transatlantic tensions were highlighted.

### *Additional Members*

The alliance is still in the process of seeking out additional partners. There have been talks with the Swedish and the Italian governments as well as with private European foundations. At this time, GMF is not actively seeking for-profit partners because the alliance calls for intraregional security cooperation. For this reason, GMF has concentrated efforts on tapping into government resources, but the alliance remains open to financial contributions from private European foundations.

### *Funding Approach*

Some European NGOs and foundations invited to join the alliance preferred not to commingle funds, but rather contribute directly through their own funding mechanisms. The Balkan Trust for Democracy is a diminishing endowment wherein funds are pooled and managed by a small staff within GMF. Many private American foundations are reluctant to pool funds since that implies a reduction in their control over their use. However, the Mott Foundation had no issues transferring monies to the endowment, largely because the Mott Foundation and GMF have had a long relationship and there was a strong level of trust between the two organizations. The goal of the USAID Global Development Alliance is to not only maximize the potential these established relationships among donors, but also deepen them – and facilitate new ones – through association and shared action.

## **USAID and the GDA concept**

### *Embracing the Concept*

Alliances among like-minded institutions often prove highly effective, and GMF finds alliances to be a good way of disbursing funds.

However, dealing with a government agency has its own challenges. Bureaucracies, by nature, are slow moving and often indecisive. USAID is not an easy organization to understand institutionally and the decision-making process can be challenging to the outsider. Having a champion to navigate within USAID is critical, and GMF felt it had developed a good partnership in this respect with its contacts within the Agency.

USAID put up EUR 10 million (\$11,230,000) for the endowment. GMF contributed \$10 million, as well as another \$2,000,000 in administrative in-kind support. By providing the administrative support for BTD, legal and governmental tax issues are avoided. The Mott Foundation joined the alliance with \$5 million, and the GoG committed EUR 866,000. USAID resources will be spent down over the course of the ten-year grant period; GoG funds will be spent within a three-year period. GMF and Mott resources will be spent more slowly so that the endowment can be sustained longer than the planned ten-year life of project.

## The Process

### *Joint Planning and Decision-Making*

The German Marshall Fund has been the driving force in the alliance and is the managing partner, but all alliance members – GMF, Mott Foundation, and USAID – played a role in planning and strategizing. The Government of Greece was involved on a political level, preferring not to manage the day-to-day process.

Walter Veirs pointed out that the Mott Foundation is accustomed to a less complicated process, but was otherwise satisfied in dealing with USAID as a partner. A potential problem might be the unpredictability and even unreliability in USAID as a government agency; politics can quickly change and funds redirected despite prior commitments. The Mott Foundation clearly understands the levels of decision-making involved in a government agency and various stakeholders involved in a number of issues in the region. The foundation is very concerned with how the programs and approaches of other organizations impact issues on which it is working. For this reason, the Mott Foundation values partnership with key players even though the partnership may change its normal way of working. In this case, the Mott Foundation could accept any assessed risk while focusing on the important benefits gained through partnership with USAID.

### *Pooled vs. Parallel Funding*

The alliance uses a pooled financing approach, which in this case means that all contributions are deposited into the endowment and then redistributed through a grant-making mechanism. USAID funds are kept in a separate account, not commingled for ease of accounting purposes, while the Mott Foundation was initially interested in pooled funding.

### *Managing Relationships*

The Balkan Trust is designed to operate with a small, experienced staff that actively seeks out and incorporates expertise from a wide variety of partners. An informal advisory board of experts from Southeastern Europe and from key international organizations is charged with oversight of the institution's strategic development. The function of the Advisory Board is evolving and, following a recent Board meeting, currently exploring the creation of country advisory committees.

### *Drawing down the endowment*

Grants are reviewed by a committee composed of GMF staff and officials from selected partner institutions. Representatives from USAID and the Mott Foundation sit as non-voting participants, together with a panel of 7-8 reviewers from the region. Heather Goldman, the CTO of the alliance, represents USAID, while representatives from bilateral missions are informally consulted. Short-listed proposals are sent to the committee before the review meetings. Project proposals are accepted on a rolling basis, and grant decisions are made monthly. Both the advisory committee and grant making committee must ensure that programs funded by the endowment are effective, responsive to local needs, and complementary to other initiatives supported by the international community. The endowment is managed from GMF headquarters in Washington, DC, with the Board of Directors providing official oversight.

## Conclusions/ Lessons Learned:

- *All partners committed to same vision and objectives.* The institutional commitment of all partners to strengthening local democracy laid the foundation for the creation of the

Balkan Trust for Democracy. (This is one of the most important conclusions for a successful alliance- the sectoral focus has to be of mutual strategic priority and interest.)

- ***Consultations take time.*** As a result of a process that involved widespread consultation and a competition and negotiation, a desirable endowment mechanism was created and a strong partnership developed.
- ***Competitive process paid large dividends.*** The proposal development, good faith, and patience to wait for a Congressionally acceptable endowment led to a highly desirable mechanism and a strong partnership.
- ***Making the alliance happen.*** Alliance building is not a sure bet. There is a long lag-time between initial contacts and reaching an agreement. From the perspective of the partner, they need reassurance throughout the process that there will be a final formal agreement. Communication is key as the process unfolds. When possible, a memorandum of understanding can help solidify the relationship.
- ***Partnering with the USG & European Donors.*** Many European donors believe they will have little or no influence on a project when dealing with the US government because it is often the biggest and most influential player. However, this experience shows that the US government can be a true partner.
- ***Make space for other donors.*** How to do this is a question of experimenting and trying different methods. There is no one best practice for doing that, though there are many models.