

Dr. Rajiv Shah  
Administrator  
U.S. Agency for International Development  
1300 Pennsylvania Ave., NW  
Washington, DC 20523

February 4, 2013

Dear Administrator Shah:

On behalf of the ACVFA Working Group on Local Capacity Development, we are pleased to share the attached final report, "Improving Foreign Assistance: ACVFA Report on Best Practices in Local Capacity Building."

Organized in response to your request for the Committee's advice on this topic, the working group met several times over the past four months to review and consider USAID's current policies as well as the many existing recommendations on the topic by development experts and institutions. The working group reviewed 21 sources and sought to identify major points of consensus across these publications and among the group's members. The recommendations in this document are contextualized within those strategic themes.

As you will see in the paper – the working group supports your efforts to increase developing country ownership while making the following recommendations to help ensure your reforms fulfill their promise of more effective, sustainable development:

1. Improve capacity, both at USAID and the country-level, to ensure transparency, accountability, and results.
2. Tailor local capacity building to reflect local complexities.
3. Strengthen collaboration and coordination with development partners.
4. Connect shorter-term goals to long-term outcomes.

The Working Group welcomes the opportunity to discuss our recommendations and to be helpful in any next steps in this process.

Sincerely,



Liz Schroyer  
Working Group Chair



Jack Leslie  
ACVFA Chair

**Improving Foreign Assistance:  
ACVFA Report on Best Practices in Local Capacity Building**

This report is intended to provide recommendations to Administrator Rajiv Shah as the U.S. Agency for International Development (USAID)<sup>1</sup> continues its work to ensure that the U.S. government provides both recipients and donors the most effective, sustainable, and cost-efficient foreign assistance possible.

In our role as advisors to the Agency, Administrator Shah requested that the Advisory Committee on Voluntary Foreign Aid (ACVFA) provide input on USAID's policies for country ownership and, specifically, the requisite local capacity building programs to achieve it. In answer to this request, ACVFA established a working group to focus on USAID's new policies for local capacity development (LCD) and to highlight best practices and offer guidance on how best to implement the reforms.

The ACVFA working group embraces the development principles behind USAID's goal of increasing local capacity and believes that local capacity building is imperative to achieving our shared development objectives. Recognizing that the changes required to enact these reforms are challenging, the working group recommends four areas for which USAID should consider further reforms in order to maximize the impact of its local capacity development agenda.

## **II. BACKGROUND**

### ***USAID Forward and Local Capacity Development***

In the 1960s, the decade when USAID was founded, official development assistance (ODA) represented 70 percent of all capital flows to developing countries. Today, foreign aid makes up just 13 percent, while other capital flows have increased, including trade, investment, and remittances. This shift was possible, at least in part, due to the dramatic increase in the number of developing countries whose governments embraced democratic values and enhanced their accountability and commitment to equitable growth over the same period.<sup>2</sup>

In response to the changing environment, previous administrations made significant efforts to reform U.S. foreign assistance programs, particularly in the areas of accountability and partner country buy-in, as demonstrated by the creation of the Millennium Challenge Corporation (MCC) under President George W. Bush. The Obama administration set out to build upon these reforms and further increase effective and sustainable foreign assistance programs. Following the 2010 Presidential Policy Directive on Global Development (PPD-6) and the results of the first-ever Quadrennial Diplomacy and Development Review (QDDR), Administrator Shah outlined an ambitious reform agenda to transform the way the Agency does business: *USAID Forward*<sup>3</sup>.

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<sup>1</sup> Note: This document uses USAID and Agency interchangeably.

<sup>2</sup> World Bank, World Development Indicators

<sup>3</sup> USAID Forward was announced in July 2010 and was an early outcome of the Presidential Policy Directive on Global Development (PPD-6) and the Quadrennial Diplomacy and Development Review (QDDR) led by Secretary of State Hillary Clinton. Its aim is to help USAID work more efficiently towards the ultimate goal of creating the conditions where its development assistance is no longer needed.

As described in USAID publications, *USAID Forward* aims to modernize and strengthen USAID so that the Agency will be better able to meet the development challenges of this increasingly complex and interconnected world. In order to do this, USAID identified three key pillars critical to reforming U.S. aid programs<sup>4</sup>:

1. Building Local Sustainability and Partnerships;
2. Fostering Innovation; and
3. Strengthening [USAID's] Capacity to Deliver Results.

The reform agenda further identified six sub-objectives for changing the way the Agency engages in implementation and procurement work in support of building sustainability and local partnerships. Of those six sub-objectives, the Advisory Committee on Voluntary Foreign Aid (ACVFA) flagged the first two as the most relevant to achieving country ownership and therefore, focused its review primarily on proposed reforms within these two objectives:<sup>5</sup>

- Objective 1: Strengthen partner country capacity to improve aid effectiveness and sustainability.
- Objective 2: Strengthen local civil society and private sector capacity to improve aid effectiveness and sustainability.

The ACVFA working group on LCD agrees with USAID that transparent and responsive institutions, including strong civil societies; vibrant, socially responsible private sectors; and fully functioning, responsive governments (both national and local) are critical to ensuring that people in developing countries own and lead their own development. For that reason, the working group supports LCD becoming an increasingly critical part of USAID's policies and a cornerstone of its reform efforts going forward.

### **III. OVERVIEW OF THE WORKING GROUP'S FINDINGS**

The working group is comprised of leaders from global nonprofit organizations, academia, policy institutes, and private sector companies who have extensive experience providing technical assistance and strategic counsel to local organizations and institutions in low and middle-income countries.<sup>6</sup> During the past five months, the group reviewed and considered USAID's current policies as well as the many existing recommendations on the topic by development experts and institutions. The working group sought to identify major points of consensus across these publications and among the group's members. The recommendations in this document are contextualized within those strategic themes and reflect the decades of development experience of the working group members.

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<sup>4</sup> These three pillars summarize reforms in seven key areas: 1) Implementation and Procurement Reform; 2) Talent Management; 3) Rebuilding Policy Capacity; 4) Strengthening Monitoring and Evaluation; 5) Rebuilding Budget Management; 6) Science and Technology; and 7) Innovation. (Original press release available at: <http://transition.usaid.gov/press/factsheets/2010/fs101118.html>)

<sup>5</sup> Sub-objective 3 is to "Increase competition and broaden USAID's partner base"; Sub-objective 4 is "Use of USG resources more efficiently and effectively"; Sub-objective 5 is "Strengthen collaboration and partnership with bilateral donors, multilateral and international organizations"; and sub-objective 6 is "Standards for Establishing Acquisition and Assistance Authority Levels". (Sub-objectives are from internal USAID documents shared with the ACVFA subcommittee for the purposes of this report.)

<sup>6</sup> A list of the working group members is attached as Appendix A.

Having reviewed the overall goals of USAID's LCD plans, the working group strongly supports the aim of strengthening the capacity of partner country governments and governing institutions and the capacity of partner countries' local civil societies and private sectors in order to better meet our broader development objectives. The working group agrees with Secretary Clinton and Administrator Shah that America's foreign assistance must continue to become more effective, accountable, and transparent, particularly as it relates to taxpayer dollars. The increasing economic interdependence of national economies and global markets means that building local capacity and country ownership is more important than ever – both to developing nations and the United States.

Therefore, the working group supports the following principles that align with USAID's local sustainability reforms<sup>7</sup>:

1. Ensuring that over time, partner countries and their citizens come to own and lead their development efforts;
2. Strengthening partner governments, local civil society, and local private sector capacity and effectiveness to drive and shape their own development;
3. Ensuring and increasing transparency and accountability at all levels, including host country governments and institutions, in foreign assistance distribution, use, and impact; and
4. Fostering collaboration, coordination, and engagement between development actors of all types.

We applaud the efforts USAID has undertaken thus far and trust that the following recommendations will be helpful as the Agency continues to work toward greater efficiency and impact.

#### **IV. RECOMMENDATIONS**

The recommendations that follow reflect the consensus thinking of the working group. They build on findings from NGOs, development professionals, businesses, and coalition groups and are consistent with the growing recognition that USAID has a unique opportunity – and a real need – to get this right.

The working group would like to stress that implementing these reforms will be more complicated in some situations, particularly in conflict situations, fragile states, and/or countries without functioning governing structures and institutions, and that not all environments will be conducive to achieving the Agency's stated LCD goals by 2015. It is important to note that many governments in the countries where USAID provides assistance create obstacles for the emergence of a vibrant, independent civil society and private sector. Though USAID's role in strengthening civil society is not a focus of this paper, the working group would like to emphasize the importance of a robust civil society in achieving local capacity building and long-term development objectives and encourage the Agency to further strengthen their efforts to protect and bolster local civil societies.

In order for USAID to succeed in its goal of promoting local capacity development, USAID should consider the following recommendations:

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<sup>7</sup> The specific approaches outlined by USAID can be found at: <http://www.usaid.gov/results-and-data/progress-data/usaid-forward/building-local-sustainability-and-partnerships>.

**1. Improve Capacity, Both at USAID and the Country-Level, to Ensure Transparency, Accountability, and Results.** To ensure that USAID's LCD reforms are properly implemented, further efforts are needed to increase USAID's capacity at the headquarter and country-level to deliver measurable and outcome-focused results, including the capacity to provide greater accountability and transparency in the Agency's programs.

- **In-Country Capacity.** The working group recommends that USAID improve capacity at the country-level in two areas. First, to identify ways to streamline application and reporting requirements *without* lowering USAID's high standards of transparency and accountability; and second, to more clearly establish indicators to measure progress toward achieving local capacity, focusing on final outcomes as opposed to programmatic inputs.

The working group recognizes the inherent tension between USAID's ability to maintain stringent transparency and accountability standards and create an enabling environment that makes it possible for local entities to comply with the standards and therefore accomplish USAID's desired country ownership and LCD outcomes. USAID needs to further review this challenge and the associated risks in order to find additional mechanisms to help local entities comply with the current requirements without lowering standards of accountability and transparency.

As part of this review, the working group recommends that USAID engage the expertise of its proven implementing partners who have existing relationships with these local organizations and significant knowledge of both USAID's requirements and the local challenges and constraints. One specific recommendation is to build upon USAID's mentoring and training mechanisms by leveraging existing mentoring relationships to work with local organizations.

Another issue the working group highlighted is the need to establish better indicators on local capacity building. In order to ensure USAID is tracking both spending and results in a way that helps us achieve the best development outcomes in the most efficient manner, the working group recommends that USAID more clearly define local capacity development and establish more specific outcome-based indicators for measuring progress of increased capacity building. USAID should consider more strategically utilizing its access to researchers to help foster more rigorous outcome-based impact evaluations as a means of focusing on results and tracking program progress.

- **USAID Headquarters Capacity.** As part of the USAID Forward agenda, USAID made a commitment to improve the transparency of its development work and procurement reforms. There has been some progress in this area, including the publication of information through the Foreign Assistance Dashboard. In order to be more effective, the working group believes that USAID could better achieve its goals – in specific countries, regions, globally, and within the U.S. – by tracking and sharing a more robust accounting which reveals the full spectrum of resources the agency is investing in local capacity development. In order to do this, USAID will likely need greater staff capacity that allows the Agency to track organizational performance and development outcomes which assess the effectiveness of its local capacity building programs. This could include additional local capacity development teams made up of LCD, organizational change, and evaluation experts, or more in-depth trainings for both Washington and Mission-based staff responsible for moving forward USAID's LCD agenda.

2. **Tailor Local Capacity Building to Reflect Local Complexities.** As USAID recognizes, there is not a one-size-fits-all approach to achieving country ownership. It is necessary to tailor local capacity development to fit the country/local context, as well as fit within the overarching policy framework guiding USAID. While the working group commends the Agency for some of the steps it has already put in place to tailor local capacity building approaches, including local assessments and the creation of local capacity development teams, we recommend more detailed and transparent plans to evaluate the ability of both countries and local organizations to effectively manage increased direct funding from the U.S. government.

The working group discussed USAID's commitment to increase its investment in local governments, businesses and NGOs to approximately 30 percent by 2015. While the working group does not address the specific number, we recommend the following actions given USAID's proposals:

- **Develop Guidelines to Assist Missions and Manage Risk:** USAID should consider developing guidelines to assist Missions in determining when direct assistance to local organizations and institutions is preferable to the provision of the same assistance through long-term partners. Guidelines should recognize that capacity building varies based on different country contexts, but should consider the type of relationship that should be established with local organizations, governments and institutions in order to achieve the intended outcomes, and the relative effectiveness of different stakeholders; the need for outside technical assistance; and the risks that USAID's longer-term partners can handle when supporting nascent organizations.
  - **Increase Consultation with Congress:** Recognizing that 30 percent is an ambitious target, USAID should work closely with Congress to review the timeframe, priorities, and USAID's support structure for its increasing focus on local capacity development. This will also present an opportunity for Congress to discuss the necessary safeguards for ensuring that local capacity development is implemented effectively and prudently.
  - **Clarify Partner Governments' and Institutions' Responsibilities:** The success of efforts to achieve country ownership will depend squarely on the desire and capacity of partner governments and local institutions to own and lead their own development efforts. USAID should identify more specific ways that host-country governments and institutions can more clearly demonstrate how they will meet the application criteria and indicators for success outlined by USAID.
3. **Strengthen Collaboration and Coordination with Development Partners.** As USAID continues to rebuild and reform its business practices, the Agency should better leverage the knowledge, skills, and resources that its current LCD partners – both in the U.S. and overseas – bring to the table. Its partnerships with private sector companies, multilateral organizations, development contractors, NGOs, professional and business associations and philanthropic and faith-based organizations allow for greater sharing of expertise, collaboration on implementation, and coordination of goals, all of which should lead to more successful achievement of long-term sustainable development results. The working group encourages USAID to act as a convener of its development partners, particularly at the Mission level, to advance the discussion of the recommendations laid out in this paper – specifically, the development of guidelines for use by the Missions and the development of a more robust definition of LCD and metrics for measuring the success of LCD activities.

The working group also wishes to stress the importance of providing strong and consistent policy guidance to Missions on effective stakeholder engagement in all phases of project development. In order to move towards true country ownership, local institutions must be included as equal partners in both the planning and implementation of development work. This task is particularly challenging given that, due to growing security concerns, it is increasingly difficult for USAID personnel to travel freely within many of the countries in which they work. USAID staff therefore may not have adequate flexibility to mentor their local partners, spend time visiting project sites, and conduct on-site assessments and evaluations. Given these constraints, USAID's traditional and new partners should be called on as resources for mentoring, monitoring, evaluating, and reporting on local capacity development and on the transparent use of U.S. government dollars by host country governments and institutions.

- 4. Connect Shorter-Term Goals to Long-Term Outcomes.** Building local capacity takes time, but often USAID's funding timeframes focus on short-term goals. Many of these obstacles are ingrained in USAID's funding system and mandated by the federal government, but the working group encourages USAID to identify ways in which capacity building outcomes can be better integrated and elevated within the current system and existing Program Cycle. Short-term capacity building objectives should be deliberately positioned into a longer-term strategy and local capacity building should be identified and clearly communicated as a key result. Doing this will help maintain continuity when there are changes in personnel and management systems, and allow the ultimate goal to withstand the changing tides of Washington, D.C.

The working group's recommendations include developing measurable quantitative and qualitative outcome-based indicators to ensure that short term progress in local capacity development is impacting the ultimate longer term goals of country ownership, and designing a process in which Congress, existing long-term partners, and local institutions are brought to the table to discuss the risk and benefits of different measurement systems.

#### **IV. CONCLUSION**

In recent years, USAID has instituted important new policies that updated internal procedures and operations to enhance the transparency, efficiency, and effectiveness of partnerships with local organizations and governments; invested more in programs that leveraged non-traditional partners; increased the allocation of program resources to local partners; and strengthened staffing allocation to match its new business model and needs for expertise. The working group applauds these updated policies and USAID's goal of increasing local capacity development to achieve country ownership and aid effectiveness. We hope that the Administrator will consider the recommendations of this paper to further improve the Agency's ability to effectively implement its local capacity development activities.

**Appendix A – Background on ACVFA and Working Group Members\***

ACVFA was established by Presidential directive after World War II to serve as a link between the U.S. Government and private voluntary organizations (PVOs) active in humanitarian assistance and development work overseas. Comprised of up to 30 private citizens with extensive knowledge of international development, ACVFA helps provide the underpinning for cooperation between the public and private sectors in U.S. foreign assistance programs.

**Working Group Members:**

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\*Organizational affiliations are listed for identifications purposes only and are not reflective of the organization's stance on the statements or recommendations included in this document.

## **APPENDIX B – Research Methodology**

This review emerged on the heels of USAID's Local Capacity Development Summit in July 2012. The working group was self-selected from the broader ACVFA membership and met 4 times over a period of 5 months. In addition, a literature review was conducted of 21 sources, as well as off-the-record and not for attribution interviews with development experts inside the Agency, across the U.S. government and with private sector companies and not-for-profit organizations.

[American Jewish World Service, \*Foreign Assistance Reform Special Report\*.](#)

[Bread for the World, \*A Better Way of Partnering, Supporting Country-Led Efforts Against Hunger\* \(January 2011\).](#)

[Coalition of International Development Companies, \*Statement on Divisive Foreign Policy Piece\*, M. Charito Kruvant, Betsy Bassan, Richard Dreiman, Asif Shaikh, Indira Ahluwalia, Jim Boomgard & Stan Soloway \(July 2012\).](#)

[Center for Strategic & International Studies \(CSIS\), \*The Ecosystem of U.S. International Development Assistance\*, Daniel F. Runde, Conor M. Savoy, Asif Shaikh, Nikki Collins \(October 2012\).](#)

[InterAction, \*Country Ownership: Moving from Rhetoric to Action\* \(November 2011\).](#)

[InterAction, \*Procurement for Country Ownership and Better Results: Recommendations for Improving USAID's Implementation and Procurement Reform\* \(September 2012\).](#)

[International Relief and Development, \*Building Local Capacity in Health Programs\* \(June 2012\).](#)

[Modernizing Foreign Assistance Network \(MFAN\), \*Implementation and Procurement Reform: A Gateway to Country Ownership\* \(June 2012\).](#)

[Oxfam, \*New USAID reforms put foreign aid to work fighting corruption and waste\* \(May 2012\).](#)

[Oxfam, \*Ownership in practice: The key to smart development\* \(September 2009\).](#)

[Save the Children, \*Consultation and Participation for Local Ownership\* \(January 2010\).](#)

USAID, *Building Local Development Leadership: USAID's Operational and Procurement Improvement Plan* (internal draft document).

[USAID, \*Implementation and Procurement Reform Newsletter\* \(June 2012\).](#)

[USAID, \*Local Capacity Development Summit Resources and Presentations\* \(June 2012\).](#)

[USAID, \*Strengthening Country Systems: An Experience Summit Resources and Presentations\* \(November 2012\).](#)

[USAID, \*Remarks by Administrator Shah at the Council on Foreign Relations\* \(March 7 2012\).](#)

[USAID, \*Remarks by Secretary of State Hillary Rodham Clinton and USAID Administrator Dr. Rajiv Shah at USAID Town Hall Meeting\* \(February 15 2012\).](#)

[USAID, \*Remarks by Administrator Shah at the Center for Global Development\* \(January 19, 2011\).](#)

[USAID, \*Operational Policy \(ADS\)\*, \(accessed September 2012\).](#)

- Chapter 220: Use of Reliable Partner Country Systems for Direct Management and Implementation of Assistance
- Chapter 303: Grants and Cooperative Agreements to Non-Governmental Organizations
- Chapter 305: Host Country Contracts
- Chapter 349: International Agreements
- Chapter 350: Grants to Foreign Governments

[U.S. Committee on Oversight and Governmental Reform, \*Letter to Administrator Shah, Darrell Issa, James Lankford & Jason Chaffetz\* \(April 26 2012\).](#)

[Women Thrive Worldwide, \*Country Ownership in Action: Investing in Local Organizations\* \(May 2011\).](#)