

More Effective Capacity Building Within USAID Forward

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This brief outlines the critical importance of local capacity building for effective development and the likely effect of USAID Forward and Procurement Reform (IPR) on that process. Capacity building is again at the center of vitally important policy and program discussions. These exchanges center on the best ways to achieve development objectives, mobilize resources, coordinate efforts and strengthen the effectiveness of donors, governments, citizens and civil society. In this context, InterAction and its members welcome the increased visibility and importance accorded to local partner capacity building by USAID Forward. We strongly support the aid effectiveness principles informing IPR, including participatory and inclusive country ownership, increased transparency and accountability.

International NGOs bring deep program experience and expertise to capacity building based on decades of investment in strengthening our local partners. The purpose of this work is to assist local partners in achieving greater development impacts and to support strong, independent non-governmental sectors that can contribute meaningfully to country-led development. This experience informs the assessment and recommendations offered in this brief. As currently framed, we believe the IPR strategy faces significant risks related to its capacity building objectives, approaches, indicators and sustainability. Of particular concern are IPR's lack of policy and program attention to enabling environments for nonstate actors, and the "lost leverage" from not capitalizing on existing relationships between INGOs and local NGOs (LNGOs) to accelerate capacity building.¹ Such cautionary notes underscore the importance of suggested improvements for its long-term effectiveness. The brief concludes with recommendations on how to tackle these issues and signals confidence in the potential for IPR to better address pressing development deficits.

The Pivotal Importance of Capacity Building

Many international NGOs (INGOs) have been involved in local capacity building efforts for decades, helping to strengthen the contributions of partner organizations to national development goals. INGOs have helped build the capabilities of local partners—including counterparts in civil society, government, community-based organizations, private enterprises and other institutions. While INGO activities reflect a range of missions and priorities, a consistent characteristic has been engaging communities for a longer duration than is typical of the USAID program

¹ This paper uses the general term "NGOs" to refer to both local and international NGOs. It also uses the more specific "local NGOs" (LNGOs) as distinct from "international NGOs" (INGOs). An exact, consistent definition of these terms within IPR is a topic current discussion. Some organizations prefer the term "local partners" instead of "local NGOs" to emphasize the partnership aspect of their link to local counterparts. Others prefer "LNGOs" to emphasize a common civil society identity distinguished by regional or national origin.

cycle.² INGOs invest billions of dollars in private investment each year in programs that establish lasting relationships with communities and local partner organizations. In part because more than 90% of in-country INGO staff are local nationals, these staff are familiar with local needs, culture and development priorities. In these respects “country ownership” as a goal and an approach is not a novel principle for most civil society organizations.

Yet the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action and the Busan framework make clear that inclusive country ownership entails new roles and responsibilities for most development actors. To achieve and sustain development outcomes, local civil society, the private sector and government entities must acquire the skills, institutional capabilities, resources and operating space to more directly drive the development process. Country ownership is premised on more than a relocation of strategic vision, policymaking and program management to local partners. The relationship between donors, host countries and a wide range of nonstate actors must evolve toward a more genuine partnership.³ Each aspect of this shift will need to be based on enabling policies and range of capacity building interventions.

Perhaps most important within an aid effectiveness framework is a supportive policy, legal and regulatory operating environment to empower and activate the full range of local stakeholders. As nonstate actors are assisted in becoming more effective, autonomous, accountable and sustainable—and as they operate in a more supportive enabling environment—the quality and scope of their contributions grows. To contribute effectively, civil society organizations must have the rights and freedoms to organize, secure resources, voice opinions, contribute to agenda setting, operate effectively, and help hold state institutions accountable for development results.⁴ Absent these conditions, capacity building for individual organizations is not an adequate strategy for long-term success.

The autonomy and sustainability of local civil society will ultimately depend—among other factors—on local sources of funding or reliable access to external resources. INGOs have funded their LNGO partners through various mechanisms for decades, and so have relatively few qualms about that aspect of IPR. Yet funding for local organizations is vastly different than *local* funding for local organizations. Most countries lack a tradition of philanthropy or adequate public investment in range of activities provided by civil society. For that reason, dependence on external funding will remain a characteristic of local organizations for the foreseeable future. Yet NGO experience strongly suggests that whether local or external, funding is but one of many dimensions of effective operations and sustained development impact. Many organizations have expressed concern that the strong emphasis on increased levels of funding to local organizations within IPR sidesteps or underestimates these other important considerations.⁵

As currently framed, IPR poses challenges for NGOs related to the roles it prioritizes for civil society, to strategies for effective capacity building, and to the relative lack of attention to the enabling environment for nonstate actors. The following sections explain why it is important to broaden the range of identified roles and mechanisms for partnering with civil society, and why those steps should be complemented by actions to protect and expand operating space for nonstate actors.

2 This brief does not review the enormous literature on capacity building tools, techniques and program experiences. It focuses instead on cross-cutting policy issues that could contribute to more effective use of this knowledge resource. A recent USAID workshop highlights a range of approaches, innovations and best practices in local capacity building by a wide range of nonstate actors, including INGOs: <http://www.usaid.gov/results-and-data/progress-data/usaid-forward/building-local-sustainability-and-partnerships/local>.

3 The attributes of better-realized partnerships are described in “Country Ownership: Moving from Rhetoric to Action,” InterAction, Nov. 2011, pg. 3. Available at: <http://www.interaction.org/sites/default/files/Country%20ownership%20paper.pdf>. Addressing the power imbalances often implicit in partnerships between organizations with different connections, capacities and resource bases is critical. See Dayna Brown, “Building Effective Partnerships: local views,” Humanitarian Exchange, Number 50, April 2011, http://www.cdainc.com/cdawww/pdf/article/HumanitarianExchange_April2011.pdf.

4 These elements of an “enabling environment” are limited or under pressure in many countries. See *Defending Civil Society*, June 2012, http://www.icnl.org/research/resources/dcs/DCS_Report_Second_Edition_English.pdf.

5 An emphasis on aid flows to the near-exclusion of the other dimensions of effective local capacity development and operating environment characterizes many discussions of country systems and “localizing” aid. See Glennie, Jonathan, et al., *Localizing Aid: Can using local actors strengthen them?* Overseas Development Institute, 2012, p. xi.

Capacity building for aid effectiveness

Recommendations for strengthening the USAID Forward approach.

The following recommendations are steps we believe USAID could take to revise IPR's priorities and approaches to address these challenges. NGO experiences and perspectives provide useful reference points for assessing the prospects for USAID Forward/IPR to achieve increased development effectiveness. To grasp the opportunity these reforms represent, a number of important policy gaps and program weaknesses will need to be addressed. The recommendations that follow explain the risks the IPR frame holds for increasing aid effectiveness, and describe paths to substantially reduce them.

1. Promote the emergence of more capable and self-sufficient LNGOs by balancing capacity building for specific organizations with policies and programs to build a healthy enabling environment for all nonstate actors.

Inclusive country ownership implies the emergence of capable, independent nonstate sectors—*communities of organizations*—contributing actively to national development processes. Yet the quality of the enabling environment for civil society as a whole often receives less attention than the capacities of individual organizations. Organizations in a strong enabling environment are able to share learning on program approaches, form complementary partnerships based on organizational strengths, and join together to support policy dialogue aimed at providing civil society organizations the freedom to work effectively.⁶

Conversely, capacity building for individual organizations in a weak or restrictive enabling environment for nonstate actors will generally be unsuccessful—akin to sowing high-yielding seeds on stony or infertile ground. While necessary in some cases, it is an incomplete strategy for realizing aid effectiveness principles.

Capacity building of individual organizations—though vitally important—often has a short-term focus on a limited set of technical competencies that support project deliverables. Failing to address the importance of simultaneously opening up space for civil society sidesteps critical macro-level constraints. In many countries, civil society organizations face restrictions on their ability to receive external funding, partner with other organizations, meet or conduct outreach to citizens, operate in areas of need, communicate about their activities, advocate for more appropriate development policies, or work in an environment that is safe and free of corruption. These restrictions have obvious impacts on the effectiveness of civil society that organizational capacity building by itself cannot remedy. They weaken the contributions and sustainability of individual organizations and reduce the synergies between them.

Missing from the IPR framework is recognition that without a strong commitment to improved enabling environments for nonstate actors, capacity building and local contracting for individual organizations will be less effective and ultimately unsustainable. A civil society objective for IPR focused on a healthy enabling environment and more responsible, constructive roles for civil society can provide strategic guidance to donors, governments and NGOs on capacity building priorities. By placing the health of the LNGO *sector* more at the center of capacity building efforts, USAID can help ensure that organization-specific strengthening also helps broader *communities of service providers* to support long-lasting development impacts.

- **Revise assumptions and expand objectives on appropriate development roles for civil society beyond the watchdog, accountability and local contracting currently prioritized in IPR.**

There are clear indications within IPR that civil society watchdog and accountability roles are emphasized, and that local NGOs should be more frequent USAID funding recipients—essentially local alternatives to international contractors. Depending on the country context, both of these roles are potentially constructive and important. But we suggest neither emphasized role represents the full *range* of functions that civil so-

⁶ USAID, 2011, The 2011 CSO Sustainability Index for Central and Eastern Europe and Eurasia. See Annex A, pt. 2, p. 223; Global Health Initiative, no date, "U.S. Government Interagency Paper on Country Ownership," p. 33.

ciety organizations do or should play in development. Both prioritized roles impose risks for LNGOs that IPR does not support them in managing. Without fundamental governance reforms in many countries, accountability and watchdog roles can be precarious organizational strategies. The role of local contractor confines LNGOs to a business model or niche that may not be consistent with their mission—or with the goal of promoting strong, independent civil society sectors as a counterbalance to the private and government sectors. In addition, such a mechanism may favor larger or “slicker” agencies that can respond to an RfA (request for application), even though smaller, local civil society or community based organizations that know and understand local needs may be better able to deliver effective programs.

It is critically important that non-governmental organizations gain the ability to help monitor the transparency and performance of official development investments.⁷ Increased government engagement with and accountability to citizens and nonstate actors is also an essential goal.⁸ But viable country systems entail much more than an expanded flow of funds to more capable, transparent and accountable government agencies. Aid effectiveness principles call for the involvement of local non-governmental actors across all phases and aspects of the planning, design, implementation, monitoring, assessment and accountability process. Inclusive, better-institutionalized country ownership implies a meaningful role and appropriate capacity building for nonstate actors in all development-related areas of operations.

- **Support capacity building for governments and nonstate actors to engage in policy dialogue, planning and implementation partnerships.**

A telling indicator of well-applied aid effectiveness principles and a healthy enabling environment is engagement mechanisms that bring together civil society and governments across all phases and aspects of the development process. Programs to help governments, donors, international and local NGOs create more inclusive and participatory development processes are needed to realize aid effectiveness principles. The ability to collaboratively assess needs, plan, design, implement and evaluate development programs assumes healthy levels of trust and a spirit of partnership. The capacity for outreach, consultation and partnerships needed to build trust and partnerships could usefully be strengthened in many quarters. Governments often lack the capacity to identify or the inclination to engage with civil society counterparts. Policies, funding relationships and administrative frameworks often create disincentives for governments to engage other development stakeholders. Despite this, shortcomings in engagement are often attributed to civil society. While civil society organizations sometimes lack the capacity and resources to engage on policy or strategic issues there is rarely a shortage of interest in doing so. Yet capacity building for governments in stakeholder engagement is generally an afterthought, while capacity building for civil society typically focuses on technical capacity to implement sector-specific projects.

Establishing multi-stakeholder capabilities and mechanisms requires a range of activities. For example, support could be provided for development of policies and guidance stipulating the importance of stakeholder engagement for shaping development program priorities, implementation and accountability. Surveys of in-country civil society landscapes that capture “who is doing what, where” can help identify development stakeholders and inform outreach by convening governments and non-governmental platforms. Governments could be helped to put in place trained staff and to engage stakeholders in transparent, participatory mechanisms to assess, plan, implement and monitor development efforts.⁹ To make data on development and aid investments more transparent and useful for program managers, citizens and nonstate actors, governments could be supported in acquiring project monitoring, data management and communications capabilities. Programs to inform, mobilize and engage citizens to support development efforts can greatly expand the effectiveness of project investments.

7 USAID, “Building Local Development Leadership: USAID’s Operational and Procurement Plan,” 2011, p. 3.

8 Global Health Initiative, “U.S. Government InterAgency Paper on Country Ownership,” no date, p. 19.

9 Robust Joint Sector Reviews (JSRs) would represent monitoring and accountability steps in such a process. JSRs could become more than after-action reviews if made more robust and effective by being linked to stakeholder engagement mechanisms across aid and project cycles.

An important strategy to remedy weak multi-sector engagement would be dialogue with host governments of the sort that USAID has undertaken on behalf of a more enabling environment for corporate investors under the New Alliance for Food Security and Nutrition. Ambassadors and mission directors can more actively assert the importance of more permissive legal, regulatory and operating conditions for civil society. USAID programs can support civil society networks and coalitions in working to identify and support more constructive development policies.

Clear USAID program objectives supporting cross-sectoral collaboration and meaningful multi-stakeholder engagement would represent an important strategic shift.¹⁰ Indicators that would guide program managers to build the needed institutional capabilities and engagement mechanisms would help the agency to walk the aid effectiveness talk. It would also promote synergies and partnerships based on complementary organizational strengths. The motives for these steps are grounded in aid effectiveness principles, but are clearly linked to the need to achieve more ambitious development outcomes with fewer external resources. Together, these steps would improve the effectiveness, credibility and durability of USAID investments.

2. More fully integrate and elevate capacity building as a policy priority, objective and budgeted activity in USAID programs.

Capacity development is most effective when stakeholders' needs, priorities and objectives drive the process. NGO experience indicates that beyond project-focused technical competencies, most local organizations report capacity needs in a range of internal operations, self-governance and oversight, business functions and external relationships. As a sector, civil society organizations would like the capability and opportunities to engage with government policymakers to strengthen the operating environment for NGO programs. Civil society often lacks capacity for effective outreach to help governments and donors better understand local circumstances and the opportunities that may exist to support NGOs in responding to local needs. In many cases, appropriate program interventions can help NGOs and other nonstate actors gain the skills and techniques for such outreach and engagement. Success in these efforts can significantly accelerate and improve the efficiency of other development "field" efforts.

USAID Forward's IPR objectives call for a focus on building the capacity of local entities in all programs.¹¹ Yet field reports from many countries and counterpart organizations indicate that solicitations do not yet adequately identify partner capacity building as a key outcome or objective. Meaningful capacity building requires significant investments and specialized expertise in a wide range of organizational functions. This entails budgetary, time and staff commitments that implementing organizations have found it hard to secure from skeptical USAID technical reviewers and program managers. The up-front costs of building human and organizational capital can often be recouped in increased development effectiveness, but only after a time lag that program officers under pressure for immediate deliverables and quick results have difficulty endorsing. Allowing grantees to budget appropriately for significant capacity building is a wise investment in localization, development impacts and sustainability.

- **Prioritize indicators that track organizational performance and development outcomes to assess the appropriateness and effectiveness of capacity building. Reduce reliance on indicators that track levels of contracting to local organizations.**

Aid effectiveness principles establish that increased reliance on country systems should be a way for USAID and its partners to achieve greater and more equitably distributed development impacts. In an aid effectiveness framework, tracking and demonstrating the relationship between local investments and de-

10 The need to strengthen both is evident, as the record to date on in-country consultations by USAID (e.g. Feed the Future) or host countries (e.g. CAADP consultations) illustrates. InterAction, "Policy Brief: Creating Strong Stakeholder Engagement in Feed the Future: Suggested Strategy and Guidelines," Aug. 2011:

<http://www.interaction.org/sites/default/files/Creating%20Strong%20Stakeholder%20Engagement%20in%20FF.pdf>

11 USAID, Building Local Development Leadership: USAID's Operational and Procurement Plan, 2011, Objective 2 activities, p. 6.

velopment outcomes is the best way to verify the appropriateness of capacity building strategies.¹² Increased development effectiveness—rooted in gains in local organizational performance and the efficiency with which aid improves development indicators—should be the main benchmark for the success of IPR. Capacity building for LNGOs should be guided by a clear vision of the organizational needs and development goals to which improved capabilities will contribute. Civil society is best guided toward appropriate capacity building when organizational competencies are linked to indicators of improved performance and effectiveness. To assess the strategic effectiveness of capacity building, indicators should focus on changes in the effectiveness of organizations in accomplishing their missions and program priorities.

Yet within IPR as it currently stands, an important index of reliance on country systems is the level of funding allocated to local organizations. The primary qualifying criteria for local contracts under IPR seem to be USAID “readiness” benchmarks related to capabilities in financial management, administrative and grant reporting. However, stipulated allocations for local contracting are not an adequate indicator of successful capacity building or a reflection of aid effectiveness principles.¹³ The level of funding directed to local organizations (including governments) is a process indicator, not a demonstration of increased impact or efficiency. Process indicators focused on the number of funded organizations, trainees, activities or allocation levels reveal little about the purpose, quality and effectiveness of capacity building. “Achieving capacity building objectives”¹⁴ has little significance if that capacity does not contribute to or accelerate development outcomes.

3. More systematically identify and address the various levels of risk accompanying IPR’s local contracting strategy.

It is important to underscore the broad support within the US NGO community for the objective of creating greater local NGO capacity. However, we believe that the pathways and benchmarks for pursuing this objective under IPR introduce a number of risks that USAID seems not to have identified, evaluated or addressed. Risks to individual LNGOs resulting from the roles prioritized under IPR have been discussed above. Other more systemic, macro-level issues have to do primarily with the potential outcomes of shifting to local contracting with insufficient risk assessment and mitigation strategies in place. To date, USAID has not shared a robust risk assessment and response tool for use under IPR, and we believe one is critically important. Moreover, we believe such a tool would reveal a range of significant risks similar to those that INGOs with in-country experience identified in preparing this paper.

There are substantial possibilities, for example, that funding provided to governments or local civil society—if conveyed too-quickly, with inadequate risk mapping, and with capacity building of insufficient scope and duration—may raise financial accountability and technical performance challenges.¹⁵ These are, of course, a feature of development programs in any context. But given the local contracting benchmarks, timelines and capacity building approaches IPR has set out, we believe the frequency of these outcomes is likely to rise considerably. High visibility failures attributable to IPR pose management and policy challenges much beyond individual local contracts or partnership arrangements. It is important to underscore that in the context of emerging debates about U.S. support for development assistance, these suboptimal outcomes pose risks not just for the credibility of USAID and IPR, but also for its international and local NGO partners. Most importantly, they can put at risk development investments that provide benefits for vulnerable countries and populations.

12 This is not an argument for using INGOs as service providers because local organizations are less effective. It is an argument for boosting the effectiveness of local organizations by ensuring the capacity building provided to them is relevant to their organizational needs and addresses local development deficits.

13 The “F Indicators”, share the emphasis on tracking the number of awards made to local organizations; percentage of operating unit funds allocated through partner country systems; and percentage operating unit funds to local organizations.

14 USAID, Building Local Development Leadership: USAID’s Operational and Procurement Plan, 2011, p. 6. One of the F Indicators, for example, is also: “percentage of mission awards with capacity development objectives or reporting on capacity building metrics.”

15 The risks that can accompany this set of constraints are clear from recent Pakistan experience. See, Office of Inspector General, “Audit of USAID/Pakistan’s Assessment and Strengthening Program,” Audit Report No. G-381-12-009-P, Sept. 30, 2012.

We encourage USAID to more clearly and completely identify and share the tools it will use to map and mitigate the risks flowing from the IPR strategy. The INGO community has considerable experience in managing similar challenges to its programs. We believe INGOs can play a useful role in financial and performance risk management through sub-grants to LNGO partners, and USAID should review 'umbrella grants' through U.S. NGO partners with the strengthening of these functions in mind. But this is only part of a solution, and must be complemented by a strategy to anticipate and address other aspects of risk that will accompany the current IPR framework. Not taking these steps may expose USAID, INGOs and LNGOs to unmanaged risks to their reputations and field programs.

4. Support established capacity building relationships between INGOs and LNGOs to leverage private development investments. Increase the effectiveness and sustainability of these mentoring relationships by supporting longer-term programs that deliver development and capacity building impacts.

INGOs allocate billions of dollars each year on programs that deliver critical development benefits while also building the capability of local partners. Existing INGO relationships with communities and organizations represent investments in training, skills transfer, infrastructure and operations, so also represent potential savings and efficiencies for USAID programs trying to expand impacts, accelerate "localization" and improve development effectiveness. INGOs often prioritize work in remote geographic areas, making investments in those programs more cost-effective than starting new projects.¹⁶ Building on these established relationships effectively leverages private investments, reducing the time and costs to establish local situational awareness, credibility and new partnerships for capacity building or other activities. In effect, optimizing these relationships offers a way to move more rapidly toward local capacity development and the goal of country ownership.¹⁷

Yet the impression gained from the USAID solicitation stream by many observers is rather than leveraging existing INGO-LNGO relationships, there is a general preference for parallel capacity building programs (e.g. Africa LEAD), contracting mechanisms that bypass existing mentoring relationships, or for new sectoral programs with some limited capacity building components. These approaches are considerably less likely to generate impacts than support for longer-standing, activity-based organizational relationships.¹⁸

- **Reduce reliance on short-term contracts to provide capacity building for NGOs.**

Successful organizational capacity building is a long-term process based on sustained relationships rather than a series of trainings or skill-building workshops. Contract solicitations for local capacity building generally assume relationships between outside and local organizations that are quite limited in scope and that have limited links to applied work. Contract-based capacity building is usually not premised on sustained partnerships between organizations with similar missions or closely aligned development interests. Contract solicitations are often eschewed by INGOs because of the perception that they do not allow creative, flexible responses to varying field contexts, organizational relationships or existing capacity building programs. Differences in perspectives and priorities between contractors and civil society organizations do not, of course, prevent collaboration. But short interventions, limited organizational relationships and divergent interests can significantly reduce the effectiveness of capacity building.

¹⁶ Incentives are strong for contract recipients to form relationships closer to urban areas with organizations that already have significant capabilities. This can result in the classic urban or capital city bias and a tendency for remote rural areas to fall further behind more conveniently located population centers. The lower initial costs and reduced operating expenses in such partnerships of convenience usually do not offset these negative equity considerations or the long-term development deficits they reinforce.

¹⁷ InterAction, Procurement for Country Ownership and Better Results, Sept. 2012.

¹⁸ See, for example, the Keystone Report on southern (L)NGO perceptions of northern (I)NGO approaches, attitudes and style of engagement. In particular, Southern respondents rated highly the INGO support they received in at least one of three areas: funding, promoting respondents' work, or organizational capacity building. They also ranked these three areas as most important for advancing their work. <http://www.interaction.org/sites/default/files/Keystone%20NGO%20partner%20survey%202011.pdf>



Given the depth of experience and capacity building expertise in the INGO community, a reliable way to strengthen local NGOs and achieve greater development effectiveness would be for IPR to better leverage INGO-LNGO relationships. INGOs have established relationships with local counterparts that convey nuanced understandings of local contexts and organizational strengths. Existing contracting patterns and IPR guidelines do not seem to appreciate or optimize this potential through appropriate program mechanisms. Revising IPR guidelines to lengthen the duration of projects, support established capacity building processes and increase the use of more flexible funding mechanisms can significantly improve the outcomes and sustainability of USAID's local capacity building efforts.

Summary

Capacity building is a critical component in a broader set of enabling requirements for meaningful country ownership and aid effectiveness. Current constraints in IPR's strategic approach to country ownership reduce the policy and program scope for capacity building and other tools to accelerate aid effectiveness outcomes. This brief applies NGO experiences and lessons learned in strengthening local partners to constructively address these issues. Recommended adjustments to IPR objectives, indicators and approaches can guide strategies for integrating capacity building investments to more directly improve critical development indicators. Policy and program steps to create more enabling operating environments for nonstate actors can boost the success of investments in organization-specific capacity building. Stronger IPR approaches to partnerships with international and local NGOs can help leverage private resources flows into local development, capacity building and country ownership.