A REPORT OF THE CSIS PROJECT ON PROSPERITY AND DEVELOPMENT

The Ecosystem of U.S. International Development Assistance

A DEVELOPMENT AND FOREIGN POLICY STRATEGIC ASSET

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50 YEARS | CHARTING OUR FUTURE

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THE ECOSYSTEM OF U.S. INTERNATIONAL DEVELOPMENT ASSISTANCE

A DEVELOPMENT AND FOREIGN POLICY STRATEGIC ASSET

Executive Summary

Since the end of the Cold War, the method by which the United States delivers foreign aid to the developing world has changed considerably. During this time, as the U.S. Agency for International Development (USAID) saw large-scale staff reductions coupled with an increase in programs, a large base of U.S for-profit and nonprofit organizations grew up to implement projects and programs in the developing world. Although the budgetary situation reversed beginning in 2002, staffing levels at USAID remained low and a need to engage the U.S. implementer community continues. Concurrently, a broader discussion occurred over the effectiveness of development assistance by major donors. This effort, which resulted in the Paris Declaration of 2005 and later agreements at Accra in 2008 and Busan in 2011, enshrined the notion of country ownership—that the developing world must drive its priorities to ensure sustainability. The Obama administration launched its USAID *Forward* agenda to reestablish USAID as the premier development agency in the world. A central aspect of this agenda is reforms designed to reduce the agency's dependence on contracts, grants, and cooperative agreements with U.S. development implementers and shift to a greater use of government-to-government support and local organizations.

The CSIS Project on Prosperity and Development convened a broad working group of development implementers, former and current policymakers, and other practitioners to discuss the evolving role of U.S. development implementers under the new USAID *Forward* agenda and how to achieve aid effectiveness. The working group met three times[1] to discuss (1) local capacity building; (2) results, accountability, and transparency; and (3) development effectiveness. The CSIS effort brought the development implementers together with policymakers to engage in a sustained dialogue about the future of development and the contributions that each group makes. These meetings, combined with extensive interviews, led to the conclusion that *the current U.S. ecosystem of international development assistance should be treated as a strategic asset that plays an important role in meeting U.S. national security and foreign policy objectives*. As with all systems, it can and should be improved; however, it should be strengthened, not weakened. This system, while imperfect, delivers a level of accountability and transparency for the U.S. government that is vital to continued political support for foreign assistance. The development implementers must do more to evolve to meet the changing nature of how the U.S. government sees development and the broader trends in the field. However, significant risks are associated with USAID's proposed reforms, which, if fully implemented, may not achieve the results desired. This report makes the following recommendations about the ecosystem and USAID's reforms targeting implementation and procurement:

1. Summaries of the three meetings are included as appendixes to this report.

1. *Rethink IPR's Target of 30 Percent Direct Financing and Trust Field Experts to Make Delivery Decision:* USAID should consider substantially reducing the amount of foreign assistance directed toward government-to-government project support and local organizations based on its own history of deploying such mechanisms as well as recent donor experiences.
2. *Fix Consultation and Communication:* A major obstacle during the rollout of USAID *Forward* was a series of misunderstandings over the intent of the proposed reforms on the part of the development implementers.
3. *Target Genuine Local Capacity Building:* USAID should consider launching a cost-benefit analysis of these capacity-building, institutional development efforts versus government-to-government support and the use of local implementing partners.
4. *Engage New Partners:* USAID should be more creative in how it defines eligible partners, beyond government-to-government budget support, use of local organizations, and other methods.
5. *Take a Strategic View of the Sector:* Although many within the U.S. private sector who engage in development implementation have taken steps to form a united front, these efforts remain largely disjointed. Far more must be done.
6. *Reinterpret Ownership and Capacity Building:* Finding ways to increase country ownership will remain at the center of international development for the foreseeable future, because of the continued centrality of the Paris/Accra/Busan agenda.

Introduction

The United States provides more aid to the developing world than any other bilateral donor. Delivery of this assistance occurs through a broad ecosystem of public and private actors, in which U.S.-based nonprofit and for-profit implementing partners, working through contracts, cooperative agreements, and grants, play a major role.[2] This system—the result of shifting development strategies and a series of congressional budgetary decisions in the 1980s and 1990s—is not perfect and has been criticized. However, the current model, which engages the expertise of world-class, U.S. private organizations, offers significant strengths and is a comparative advantage as well as a strategic asset for the United States' delivery of foreign assistance and furtherance of national security. This complex network of deeply experienced, for-profit and nonprofit private-sector providers is a critical component of U.S. foreign and national security policy and should be considered as such by policymakers, Congress, and the broader U.S. development community. While the opportunity for improvement is ever present, this network should be recognized and leveraged as a unique strategic asset. The network serves as a vanguard of American national interest, professionalism, skills, and values; provides political and project accountability; and leverages diverse experiences from multiple world-class organizations. In some cases, and with increasing frequency, these organizations are bringing their own financing to bear on development issues, directly and in partnership with the U.S. government.

2. The authors define "development ecosystem" as a conglomeration of various entities that deliver aid, including nonprofit and for-profit organizations, governments, multilateral institutions, NGOs, and foundations.

In 2010, the USAID administrator, Rajiv Shah, launched a broad reform effort—USAID *Forward*—with the intention of "modernizing" USAID's systems and processes. This agenda focuses on seven key reforms: (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. In addition to reforming USAID, the agenda also attempts to advance aid effectiveness. Many of these changes are needed and deserve support. Yet, the one reform that has drawn the most concern and controversy is implementation and procurement reform (IPR). Under IPR, Administrator Shah seeks to change how USAID delivers foreign assistance, reducing the participation of the U.S. organizations as expert implementers. Rather than delivering aid through U.S.-based for-profit and nonprofit implementing partners, USAID *Forward* focuses on channeling assistance funds directly to governments for project or sector support, or through in-country for-profit and nonprofit organizations, and in some instances grants to public international organizations (PIOs).[3] The theory behind this "direct assistance" is a mistaken belief that direct financing will reduce dependence on U.S. implementers, will increase local ownership and enhance sustainability, and increase institutional and technical capacity of host governments and local organizations. Moreover, this is part of an attempt by the administration to align U.S. development policy with the aid-effectiveness agenda of Paris/Accra/Busan. As an initial goal, USAID administrator Shah set a target that 30 percent of USAID's foreign assistance (approximately $9 billion, based on USAID's fiscal year 2012 budget) should pass through these conduits by 2015.[4] Even as the efficacy of this approach is still under review, USAID has embarked on a significant reallocation of resources toward different channels of delivery.

USAID *Forward*'s objectives are broadly laudable, and development professionals endorse the stated purposes of local capacity building, institutional development, and sustainable outcomes. However, many disagree with the means IPR proposes to achieve those goals. The notion that channeling assistance directly to governments that are, in most cases, woefully unprepared to manage them responsibly, or to local organizations, which are likewise largely incapable of meeting basic standards of financial accountability, is fraught with risk and potentially wasteful of scarce U.S. taxpayer resources. The inherent risks in government-to-government funding pose significant concerns, and USAID's own capacity to monitor new projects and programs is in question. The strategy of combining two important development goals—institutional development and the delivery of development services—is attractive. Combining these goals through direct assistance to government and local organizations seems a practical and efficient way to streamline foreign assistance, build local ownership, and ensure sustainable outcomes. However, 50 years of U.S. development experience has demonstrated fairly convincingly that in most cases, the result is usually the opposite. Direct assistance has failed more frequently than it has succeeded— neither institutional capacity building, nor the intended result of development effectiveness is satisfacto-

3. Interviews with current and former USAID staffers.

4. Originally, in order to reach the 30 percent target, USAID aimed to direct *20 percent toward partner governments, 6 percent in grants to local nonprofit organizations, and the rest to contracts to local for-profit businesses, multi-donor trust funds (when these directly benefit local institutions), and the obligated portion of Development Credit Authority guarantees that are actually expended*. U.S. Department of State, *Quadrennial Diplomacy and Development Review* (Washington, D.C., 2011), 99. However, now that there are no specific sub-targets, the 30 percent figure will be achieved solely by some combination of the categories outlined above.

rily achieved.[5] USAID should be especially cautious as it implements its IPR agenda. Limiting the role of U.S. firms and charitable organizations as development partners and implementers might prove both costly and short sighted. With their comparatively high technical standards, and legal accountability to the U.S. government, their global experiences and capacities for meeting institutional-building objectives and programmatic delivery objectives are largely unmatched by host-country governments or local organizations.

At the same time, however, the for-profit and nonprofit implementers must also recognize that USAID's desire to redirect funding toward local governments and organizations is not simply a political decision born of a distrust of contractors and grant recipients. While there have been frequent counterproductive statements by administration officials directed at U.S. private sector development implementers, the administration sees itself as interpreting the aid-effectiveness agenda from Paris (2005), Accra (2008), and Busan (2011). A main component of the Paris Declaration is that local country ownership leads to greater sustainability. One way donors are operationalizing country ownership is by increasing reliance on local government systems and implementing partners. However, this may be an overly simplistic approach to meeting a complex idea of "ownership." Host governments can certainly own activities without directly controlling all the resources that support them. They can also "own" ideas that do not necessarily come from them. Good, practical ideas are good, practical ideas regardless of their origin. Country ownership to develop greater sustainability and aid effectiveness are broad trends in development that will remain for the foreseeable future. The issue is determining the most practical, efficient, and responsible way to convey, develop, and maintain country ownership. In some, likely limited circumstances, this may mean relying on aid directed through local institutions. But the situation on the ground should dictate this decision, not a seemingly arbitrary figure selected in Washington. U.S. firms and nonprofit organizations perceive this response as primarily personality driven as opposed to a policy prescription. In fact, it is likely both.

The Development Ecosystem

As the largest bilateral donor in terms of money spent each year, the United States works within and supports a diverse and extensive development ecosystem. This consists of U.S. government development agencies, the UN system, multilateral development banks, private sector for-profit and nonprofit implementing partners, advocacy organizations, universities, and policy research organizations. A unique feature of the U.S. development ecosystem is USAID's reliance on a network of private sector for-profit and nonprofit implementing partners that are engaged through contracts, cooperative agreements, and grants to achieve development objectives in the developing world. Although some critics use "development industrial complex" as a pejorative expression, it is

5. There is some disagreement on this point. In researching this topic, the authors spoke with retired and current USAID officers—many of whom were veterans of the agency's past use of budget support. Some argued, quite convincingly, that USAID had great success using direct and general budget support in Central America (Honduras, El Salvador, and Guatemala) in the 1980s. In support of this, others suggested that much of the distrust of budget support stemmed from a series of inspector-general reports issued in the late 1980s and early 1990s that failed to understand project design. Finally, many simply said that the risks were too high, the rewards were too low, and it was best for USAID to avoid getting involved in any sort of government-to-government support.

in fact a powerful tool for the United States in delivering aid and influence abroad.[6] Although this paper focuses on U.S.-based for-profit and nonprofit implementers, the development ecosystem encompasses a broad swath of actors. They include universities, NGOs, advocacy organizations, the U.S. government agencies tasked with development, and the implementers. All of these work in partnership and bring a vast array of resources, including people, knowledge, and finances.

A variety of policy shifts and political decisions moved USAID away from the direct delivery of aid and toward the current system of for-profit and nonprofit implementing partners. These changes included an increased emphasis on policy-reform activities (e.g., financial sector, business enabling environment, and others), changes in federal procurement law that added flexibility to the contracting process, growth of the nonprofit sector working internationally, and the politics of the post-Cold War period. With the fall of the Soviet Union in 1991, many in Washington questioned the continued need for foreign assistance in the absence of a communist adversary in the third world. Initially, this led to a bipartisan effort to find budget savings to meet the "peace dividend" by making significant cuts to USAID's operating budget, but it later became a broader threat to the independence of USAID. Senator Jesse Helms (R-NC), the powerful chairman of the Senate Foreign Relations Committee, launched an effort in the mid-1990s to fold USAID's functions into the State Department and end its independence. Although his and other efforts were not successful, USAID saw its operating budget decline significantly, which necessitated large-scale layoffs of staff members. At the same time, however, the number of countries USAID operated in doubled and program funding increased dramatically.[7] This forced USAID to begin to contract out to for-profit development implementers and increase its use of grants and cooperative agreements with nonprofit groups.

As USAID saw its total budget increase significantly following the terrorist attacks of September 2001, the general system of awarding and managing contracts, grants, and cooperative agreements came under strain. With more money for foreign assistance, more money predictably flowed to U.S.-based for-profit and nonprofit implementing partners. This system has its challenges, but what its critics are often unwilling to acknowledge are the system's immense strengths. Because of the size and breadth of implementing partners, the current ecosystem offers the U.S. government global expertise, flexibility to reflect changing priorities and geostrategic challenges, clear accountability to the U.S. political and criminal justice process, representation of American values and interests, and a demonstrated track record in development outcomes. The system is particularly valuable in dealing with conflict or post-conflict zones. Since the end of the Cold War, U.S.-based for-profit and nonprofit implementers have worked in the Balkans, Iraq, Haiti, Sudan, Ethiopia, Afghanistan, Yemen, and other places. This ability to respond flexibly to the shifting priorities of U.S. foreign policy is an unmatched strength, which helps development to play a critical role in broader U.S. national security. Beyond this work, the ecosystem also provides the U.S. government with a reliable partner that has provided the velocity needed in implementing large-

6. Rajiv Shah said in January 2011: "USAID is aggressively doing its part to usher in this new era. This agency is no longer satisfied with writing big checks to big contractors and calling it development. We've already accelerated our funding to local NGOs and local entrepreneurs, change agents who have the cultural knowledge and in-country expertise to ensure assistance leads to real local institutions and lasting, durable growth. All of this is part of the most aggressive procurement and contracting reform our agency has ever seen." Rajiv Shah, "Speech: The Modern Development Enterprise," Center for Global Development, January 19, 2011, http://transition.usaid.gov/press/speeches/2011/sp110119.html.

7. John Norris, "Hired Gun Fight," *Foreign Policy*, July 18, 2012, http://www.foreignpolicy.com/articles/2012/07/18/hired_gun_fight.

scale presidential initiatives such as the President's Emergency Plan for AIDS Relief (PEPFAR) and Feed the Future.

The current ecosystem's most important strength is its ability to deliver development results with a high degree of accountability. The network of U.S. for-profit and nonprofit development implementers offers a broad set of actors and expertise to compete for services. In a local context, USAID might have only a handful of eligible local groups; relying on the current model offers far more groups to work with. This in turns offers a great variance in price, innovation, and approach. Risk tolerance is low for foreign assistance projects within the U.S. political system; one need only look at the *Washington Post*'s coverage of failed or presumably failed projects in Afghanistan and Iraq. Minimizing exposure to corruption, fraud, and waste is a clear priority for U.S. foreign assistance. Relying on U.S. for-profit and nonprofit development implementers gives the U.S. government a range of accountability measures, including probation, sanctions, and in some instances, criminal charges. Over the years, several for-profit and nonprofit implementers have faced stiff multimillion-dollar fines, cancellation of contract awards, and in some instances, financial ruin. Some critics portray these cases as evidence that the current system is as susceptible to corruption as developing countries, but it should be seen as the strength of the accountability of the American implementer system. The reality is this rules-based system, with its dual emphasis on results and accountability, provides USAID and Congress with reasonable assurances that mistakes or malfeasance will be detected and punished.

The current ecosystem does have weaknesses, and if U.S. firms and charitable organizations that implement development projects wish to remain a force they would be wise to begin to address them. A common criticism of development implementers is that the administrative costs paid to them end up staying in the United States, largely in the Washington, D.C., area. John Norris, in his recent critique of this debate, wrote: "It should also be acknowledged that spending hundreds of millions of dollars on overhead for American firms is also a real cost, and doesn't always contribute a great deal to lasting development."[8] While overhead costs are directly related to the cost of accountability, this is nonetheless a serious issue for the development implementers to address. The issue of overhead costs extends to both the for-profit and nonprofit sectors, which is also not often acknowledged. Finding a better response for these criticisms is a necessity. In some ways, the capacity to return taxpayer money to taxpayers through employment of U.S. companies is a strong and attractive feature that helps provide political support for the international affairs budget and broader development enterprise.

The reality is that working in challenging environments requires security, and if we want global programs where we learn from one part of the world and bring it to another, large global partners are necessary to provide that sort of learning; that is what the indirect costs are paying for. In addition, often private philanthropy or other donors are being subsidized by the U.S. government's payments of indirect costs because of their unwillingness to pay higher than x percent of indirect costs while expecting world-class and global capabilities from nonprofit or for-profit partners. To date, the ecosystem has not provided vigorous responses to these criticisms, and it needs to do so. Other weaknesses of the current system include its susceptibility to earmarking and interest-group politics by members of Congress and members of the ecosystem who want specific sectors funded. Another shortcoming is that when technical leadership at USAID is weak, there is a tendency to "outsource thinking" and create instruments that minimize leadership and

8. Norris, "Hired Gun Fight," http://www.foreignpolicy.com/articles/2012/07/18/hired_gun_fight.

direction from USAID staff. The Development Leadership Initiative—a bipartisan initiative to hire additional USAID staff—has been designed to counter this challenge. Outsourced thinking has been a bigger problem when program spending increased but foreign and civil service staffing was precariously low and remained flat. Until now, many of these arguments against the development implementers have been made through anecdote and hunches with accusations that local organizations and local governments and UN agencies could do their work as quickly, as effectively, and with less cost. The sector now faces a significant problem because of the Paris/Accra/Busan agenda as well as the current administration's interpretation of that agenda. Nonprofits and for-profits are going to need to invest in a major study to demonstrate their provision of best value. The charges that they face are largely not backed by data that would demonstrate effectiveness, price, and speed compared to other delivery models and capacity building. If the sector challenges this head-on with data, it will help answer critics and begin a larger conversation that brings practitioners into the policy discussion.

Aid Effectiveness, Delivery Methods, and Local Capacity

Much of the debate surrounding how the United States delivers foreign assistance is driven by the broader discussion over "aid effectiveness." After several decades' worth of foreign aid, many donors reached a point of frustration in the 1990s with the lack of progress in the developing world. Strong beliefs that aid methods were not truly effective led the Organization for Economic Cooperation and Development (OECD) to convene a meeting in Paris in 2005 that would tackle how to achieve greater aid effectiveness. Scholars and practitioners identified the top-down nature of aid as the primary reason for its ineffectiveness. The resulting Paris Declaration enshrined "local country ownership" as a centerpiece to making aid more effective and producing genuine development outcomes.[9]

Currently, 137 nations and numerous international and civil-society organizations adhere to the principles outlined in the documents. The principles upon which the declaration and accord are founded include country ownership, inclusive partnerships and alignment, results, and mutual accountability.[10] What do they mean in practice?

- *Local Ownership*. In contrast to traditional forms of aid where the donor country outlines the development agenda for the recipient nation, the declaration and accord put the control and ownership in the hands of the host country. That is, the recipient country defines its own development framework, allowing nations to prioritize issues important to them.
- *Inclusive Partnerships and Alignment of Priorities*. Once the host country outlines its development agenda, the donor nation aligns itself around that agenda, including (ideally) around systems the host government uses to implement and report on the agenda.
- *Results*. A major issue with traditional types of aid is a lack of transparency. In order to combat this problem, the initiatives put in place by the declaration and accord encourage measuring results to ensure quality control and transparency.

9. Gerald F. Hyman, *Bringing Realism to Paris in Busan: The Paris Declaration on Aid Effectiveness* (Washington, D.C.: Center for Strategic and International Studies, November 2011), 1–2.

10. Organization for Economic Cooperation and Development, "Paris Declaration and Accra Agenda for Action," http://www.oecd.org/document/18/0,3746,en_2649_3236398_35401554_1_1_1_1,00.html.

- *Mutual Accountability*. Once the results are measured, both the recipient country and the donor country are accountable to those results. Giving both parties a stake in the results ensures that each remains committed to the development agenda.

In response, donors looked to the greater reliance on host-country systems, such as budget support in some instances, as one way to achieve local ownership. Budget support is aid spent through a partner government's financial management system designed to help fund a country's strategy for reducing poverty. In addition to transferring ownership to a local government, the general belief is that this strengthens government capacity, increases donor harmonization, expands service delivery, and leads to greater poverty reduction.[11] All of these are also goals of Paris, Accra, and Busan.

Although USAID and other donors use audits, monitoring and evaluation, and a detailed planning process before approving host-country systems, government-to-government financial support involves significant risks. Risks include that the funds are not used for the purposes intended and do not achieve the value sought; accountability to donors is low; desired international obligations are not met; and the local government or organizations lack the ability to absorb the funds directed toward them. In addition, relying on host-country systems is a slow way to spend funds, it is obviously more timed to another country's timetable, and its ability to show results in a clear and comprehensive manner is more limited. USAID does not envision using direct or general budget support under IPR; its past experience with the support is illustrative.[12] In the past, when deciding to use budget support,[13] USAID assessed a country's ability to absorb and manage the resources through its own financial management, planning, and implementation systems. There is general agreement that relying on local-government systems is used only with governments that have the capacity to properly use U.S. government funds for development. In an earlier assessment of the past use of budget support, USAID noted that for support to be effective, "it is critical that the recipient government be capable of responsibly managing donor funds and implementing development programs effectively, within a policy and institutional framework that is conducive to growth."[14] USAID, in a review of earlier uses of budget support (between the mid-1990s and 2004), found that given the benefits and limitations, its uses should be limited.[15]

The United Kingdom's Department for International Development (DFID) is one of the several international donors that embraced budget support in the years following the Paris Declaration. In a two-year period (2006–2008), DFID increased its use of budget support from £268 million to £461 million, which represented 20 percent of DFID's bilateral aid.[16] This was a significant shift for DFID, but it came with its fair share of issues. When the Cameron coalition government came into power, it undertook a broad review of the UK's foreign-aid policy. As a result, the new government

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11. National Audit Office (NAO), Department for International Development, *Providing Budget Support to Developing Countries* (London: The Stationery Office, February 8, 2008), 4–5.

12. USAID does not generally use direct cash transfers in government-to-government funding. Direct cash transfers are disbursed through economic support funds, with policy direction from the State Department. These funds are usually reserved for countries that have significant political or strategic interests for the U.S. government.

13. See Annex for common assistance implementation methodologies.

14. USAID, "General Budget Support: Key Findings of Five USAID Studies," Policy and Program Coordination (PPC) Evaluation Paper No. 7, December 2005, 1.

15. Ibid., xi.

16. NAO, *Providing Budget Support to Developing Countries,* 4.

decided to reduce the amount that DFID spent on budget support due to the perceived risks. The Cameron government made this decision against the backdrop of its own broader push toward budget austerity, although it also decided that aid was important enough to the UK's foreign policy that the government would "ring-fence" it and protect it from budget cuts. A senior official from DFID recently noted that the department's view was that budget support is an easy way to spend money badly and that the government had a "suspicion" of it as an effective tool of aid. Ultimately the Cameron government decided that budget support—in whatever form—would be used in only the strictest of circumstances.[17]

When USAID announced its new policy of increasing funding to partner governments and local organizations, many in the development community assumed this meant a move toward direct or general budget support. For many, this was a case of déjà vu; 20 years ago, a majority of USAID's funding went to government-to-government financing, in the form of either direct cash transfers, host-country contracting, or some other form of budget support.[18] This ultimately shrank to about 10 percent of USAID's budget in fiscal year 2009.[19] The confusion surrounding how USAID would provide funding to partner governments and local organizations is understandable when reviewing the original announcements of the new policy. The Quadrennial Diplomacy and Development Review (QDDR), for example, wrote that "USAID and State will invest in national systems, institutions, and implementing partners," adding that "we will increase the portion of U.S. funds provided to partner country governments, local organizations, and local business…."[20] Subsequently, USAID clarified that what it intends to do is *not* direct or general budget support. Rather the agency plans to look to *sector and project support*, which is far narrower than directing large amounts of aid through a country's ministry of finance.

In light of criticism of this policy, USAID argues that it is developing systems to monitor and evaluate aid provided directly to partner governments and that the agency has a system in place that provides transparency and accountability. ADS 220—*Use of Reliable Partner Country Systems for Direct Management and Implementation of Assistance*—is USAID's guiding document on how to implement government-to-government support. Under this directive, the agency has developed a five-stage system of risk assessment meant to guarantee that funding is released only to the governments most ready to account for U.S. funds and implement programs or projects. USAID emphasizes that the missions are responsible for selecting countries to be included in this program and that if a country fails to meet the standards at any point during selection, then it will not receive funds.[21] This process is currently under way and according to USAID, 30 countries have been selected for stage-two analyses. Stage three involves parallel project design, stage four sees countries selected for eventual disbursement of funds, and finally stage five entails implementation, along with monitoring and evaluation.

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17. Anonymous interview with senior DFID official, July 2012.

18. Anonymous presentation by senior USAID official, August 2012.

19. U.S. House of Representatives, "Letter from Representative Darrell Issa et al. to the Honorable Rajiv Shah," April 26, 2012. According to USAID, in fiscal year 2009 it spent less than 10 percent of its funds through partner governments. Four countries each received more than $200 million, and a second group of nine countries received more than $2 million each. See U.S. Agency for International Development, "Building Local Development Leadership: USAID's Operational and Procurement Improvement Plan," http://forward.usaid.gov/sites/default/files/Building%20local%20development%20leadership%20PA.pdf, 6.

20. U.S. Department of State, *Quadrennial Diplomacy and Development Review*, 98–99.

21. Anonymous interview with USAID official.

But these assurances are not enough and significant concern remains over this new approach. In the development literature, little suggests that the same corruption and evaluation risks that exist with direct and general budget support do not extend to the type of sector and project support USAID envisions.[22] In spite of the assurances that USAID is putting significant monitoring and evaluation oversight in place for these programs, the agency acknowledges that it is still rebuilding these capabilities. It is troubling that even as USAID rebuilds its ability to monitor and evaluate, hire new staff to do so, and create new policy, the agency is greatly expanding the number and types of programs and partner organizations that will need to be evaluated. This seems to be a replay of the 1990s, when USAID saw its operational budgets decrease, but the number of programs increase—factors that led to shifts in the development ecosystem, bringing about a larger role for U.S. firms and NGOs to implement programs. DFID, widely acknowledged as a leader in monitoring and evaluation, moved away from government-to-government support recently, because the department felt it could not adequately monitor projects under way.

USAID's development leadership initiative (DLI), created with bipartisan support under former administrator Henrietta Fore and extended into this administration, has helped the agency address many of the glaring personnel deficiencies of the 1990s and early 2000s. Notably, between 1970 and 2011, USAID saw its overall staff levels decline by 58 percent.[23] The low point came in 1999/2000, when USAID had just 900 Foreign Service officers, but even now there are only approximately 2,200 Foreign Service officers working at USAID. Some suggest that even this figure is half the number that USAID needs to implement its current programs.[24] USAID's own documents acknowledge that it still has a long way to go before the agency can confidently monitor all of its existing programs. In its operational and procurement improvement plan, USAID writes, "Unfortunately, the Agency does not have the systems in place to track sub-grants and subcontracts so it is not possible to state precisely the number of partners or the percentage of USAID funds that flow to local nonprofit organizations (or, for that matter, to local businesses)…."[25] USAID wants to correct these deficiencies, and USAID *Forward* correctly identifies this as a problem and lays out concrete steps. But, as a letter from three members of the House Committee on Oversight and Government Reform put it, "Prior to embarking on a policy shift fraught with increased risk, USAID should focus on improving its existing grant and contract oversight capabilities."[26]

This further raises the issue of personnel allocation. With DLI and other hiring increases, USAID has won a hard-fought battle to bring staffing levels back from the lows of the late 1990s. The policy shift toward providing more foreign assistance to local systems outlined above will likely require a significant human investment. Put bluntly, is this where USAID wants to allocate its new staff? Rather than focus on policy dialogue, improved project design and technical leadership, and putting USAID back at the forefront of international development agencies, these new

22. See Jonathan Glennie with Ahmed Ali, Maia King, Alastair McKechnie, and Gideon Rabinowitz, *Localising Aid: Can Using Local Actors Strengthen Them?* (London: Overseas Development Institute Working Paper 325, August 2012).

23. John Norris and Connie Veillette, *Engagement Amid Austerity: A Bipartisan Approach to Reorienting the International Affairs Budget* (Washington, D.C.: Center for American Progress & Center for Global Development, May 2012), 15.

24. Interview with former USAID staffer. The former staffer noted that at the end of the Vietnam War, USAID had roughly the same program budget level as today and approximately 4,800 Foreign Service officers to implement the programs.

25. USAID, "Building Local Development Leadership," 7.

26. U.S. House of Representatives, "Letter from Representative Darrell Issa," 2.

staffers would instead provide direct management of local grant and contract programs. This is one of the inherent tensions within the IPR section of the USAID *Forward* agenda. On the one hand the agenda sets the goal of making USAID the premier development agency in the world and rebuilding its policy ability. At the same time, the agenda seeks to reform the current system of procurement and project implementation in a manner that will likely end up placing severe strains on agency personnel. As Anne-Marie Slaughter, former director of Policy Planning at the State Department, explained in 2009, "A huge part of the problem has simply been the complete hollowing out of AID … it's been a twenty, twenty-five year process where the number of employees that AID has steadily decreased, the number of contracts that AID manages has steadily increased. So instead of having an agency that has a whole set of knowledge experts and experts in the field and then also contracts that it manages, you've got a small number of people managing a very large number of contracts just without the number of people or the resources that it needs to be the world class development agency we want it to be."[27] The risk is quite real that, by focusing staff on overseeing new localized aid-delivery programs, USAID will return to where it was just a few years ago.

Local Capacity Building

There is a belief, not completely unfounded, that a critical stage in a country's development comes from transferring ownership and responsibility from international organizations to local actors. This belief is behind the Paris Declaration and the subsequent meetings in Accra and Busan. It led former administrator of USAID, Henrietta Fore, to sign on at the Accra conference. And the belief has led to many of the reforms proposed under USAID *Forward*. USAID notes, "As donors increasingly plan and disburse funds through a partner country's institutions and systems, they are investing in the country's long-term capacity to manage its development programs."[28] Building local capacity is an important objective for foreign assistance, but one should not confuse simply transferring money to a local government or local organization to support a sector or project as local capacity building. It can help, but there is no real evidence to suggest that direct financing through host-country systems or local partners increases the likelihood of capacity building or sustainable development results. A recent report released by the Overseas Development Institute (ODI) and commissioned by USAID stated quite clearly: "Preliminary investigation suggests that both the evidence base for the effectiveness of using country systems and the theory (or theories) of chance (i.e., the logic behind intervention) are often poorly articulated." This is not conclusive, but ODI goes on to argue that far more needs to be done to endorse direct support to local governments and organizations as the best means of building local capacity.[29]

It is worth briefly examining the U.S. government's earlier decisions surrounding the creation of the Millennium Challenge Corporation (MCC) in 2004. The central goal of MCC is to reward those countries that have made the right governance, economic, and political policy choices with directed aid, determined through a constraints analysis, to spur greater growth. These determinations would all be made with the country selected for an MCC compact playing the main role in project decisions. However, when it came to the actual implementation of compact projects, MCC

27. Matt Yglesias and Matt Duss, "Anne-Marie Slaughter on Increasing USAID Capacity," Center for American Progress, November 16, 2009, http://thinkprogress.org/yglesias/2009/11/16/195128/anne-marie-slaughter-on-increasing-usaid-capacity/?mobile=nc.

28. USAID, "Building Local Development Leadership," 3.

29. Glennie et al., *Localising Aid,* vii, xiii.

balked at using the local country's financial, procurement, and management systems. MCC recognized that the required accountability and transparency simply did not exist in the implementing ministries. Instead, MCC created program management units (PMUs) in each compact country to administer the compact award. These PMUs use World Bank regulations, contract out to international financial-management, audit, and procurement firms, and rely on local personnel. They are located outside the existing bureaucracy, but at least nominally report to one of the relevant ministries or head of government.[30] Many consider MCC to be the most forward-leaning development agency in the U.S. government. If this is the case and it pointedly rejected reliance on local government systems, then why would USAID make such a decision?

None of this is to suggest that building local capacity is a bad thing. Indeed, it is the main goal of all those involved in development. Beyond this, IPR presupposes that the current system does not build local capacity (or at least not enough). This is simply not the case. USAID does it every day through programs that help to build the financial-management systems of partner governments, other broad governance reforms that improve a government's transparency, and procurement reforms. In addition, programs train local technocrats to better staff and run government at all levels. USAID already has an extensive program that sub-grants and subcontracts to local organizations that has helped to create robust local NGOs. Development implementers offer technical advice and training on these programs. This effort may seem obvious to some, but in the recent debates over the wisdom of USAID *Forward*'s implementation and procurement reform, it is not often acknowledged.

All of this leads back to what is emerging as the central nexus for aid effectiveness: results, accountability, and transparency. Results are a twofold measurement—the development results for the recipient country and the results (or benefits) for the donor nation. The former is the less controversial and more straightforward of the two; the important aspect of this is how you measure results, that is, determining what tools are necessary to ensure that programs and projects are structured and executed in a manner to ensure the best development results. The second measurement, though, is more difficult to describe. There is a belief that aid is done for purely moral reasons, but it is truly done out of enlightened self-interest. Even before the current budget situation, political support for foreign aid was low in Congress. Accountability feeds into this, as described above. Aid must provide political and project accountability for it to continue to receive bipartisan support in Congress. Finally, transparency buttresses accountability. Greater access to technology, improved governance, and training allow for donors to have a far better idea of where and how their aid money is spent. For its part, the current ecosystem of development implementers in the United States allows for a high degree of transparency because they are accountable under U.S. law.

Conclusions and Recommendations

USAID *Forward* is a strong response to the needed reforms that USAID requires to modernize and respond to the changing development landscape. It seeks to improve hiring policies, retain crucial personnel, rebuild its monitoring and evaluation capabilities, and utilize new technologies. These reforms are welcome and should be supported. However, aspects of the agenda's implemen-

30. Interviews with former MCC staffers and USAID staffers knowledgeable about the MCC decision-making process.

tation and procurement reforms are, however, deeply concerning. Setting a figure of 30 percent by 2015 for government-to-government support and the use of local organizations—a seemingly unsupported and arbitrarily selected figured—may be productive in some countries equipped to use these funds effectively and accountably, but most are not. The fact is that most developing countries are not at a point where increased direct financing through local government or local organizations will improve development outcomes. In fact, it may feed corruption and provide disincentives to positive development outcomes. The challenges are such that implementing government-to-government support or a reliance on local organizations is a high-risk, low-reward strategy that will weaken an effective network of U.S. providers. Furthermore, the threat of scandal is such that just a few incidents would likely cause a backlash in Congress that could jeopardize overall U.S. assistance levels. USAID is correct: the use of local governments or organizations is a legitimate delivery method, especially for some middle-income countries, but it must be used sparingly and in situations where there are strong partners and systems capable of absorbing the flow of aid.

There is much confusion surrounding USAID *Forward*'s proposed implementation and procurement reforms. Although the stated goal is to address local capacity—and indeed this is a trend driving it—a parallel goal seems to be to reduce reliance on for-profit and nonprofit U.S.-based development implementers. This goal has manifested itself in perceived attacks that portray USAID's partners (both for-profit and nonprofit), essentially, as opportunists only looking to profit from development work. That may not have been the intent, but that has been the message received. While profit motive, to be sure, is a foundation of a market economic system, this characterization of U.S. private sector development partners is overly simplistic. Most U.S. implementers are as dedicated to achieving, in the best ways possible, the development goals of the U.S. government foreign-assistance agencies as are the agencies charged with managing the assistance. The administration's mischaracterization of the U.S. development ecosystem's values and motivations is not helpful, and breeds discontent on both sides. In pushing this line, the individuals ignore that many of the implementers are critical allies during budget season, when Congress is considering international-affairs budget. Tempering remarks, reviewing USAID's current activities and understanding how they are already achieving what IPR is intended to achieve, being clearer about what counts as part of the goals, empowering the field staff to take decisions about the best approaches, being more realistic about timelines on building capacity and how they will be achieved would go a long way to allaying legitimate fears on the part of the implementer community.

Yet, development implementers in the private sector must think and act more strategically as a sector and consider how to address the criticisms of their approach. They must generate more facts and data on their impact in development. They must present detailed analyses of how they help to build local capacity. The development ecosystem must look less at USAID *Forward* as a loss of revenue, and more as a potential loss of capability for the U.S. government and the impact this shift might have on achieving real local capacity. And what Rajiv Shah said for USAID must be equally true for the development ecosystem: they must look to how they can work themselves out of a job. The development implementers are partners of the U.S. government and they must increase their efforts and effectiveness in describing how USAID and their partners are building local capacity every day. If the implementers want to be taken seriously, then it is time that they look on themselves as a strategic asset and respond to changing circumstances strategically. This means that the nonprofit and for-profits groups that make up this ecosystem must work closer together to present a common front on matters such as USAID *Forward*, and they must approach these issues with greater sophistication.

For its part, the ecosystem must evolve to tackle the shifts occurring in development. This includes finding ways to work on local capacity building and reduce the impression that members of the ecosystem are unduly benefiting from their work at the expense of developing countries. More importantly, they must look increasingly to how they can work in rising middle-income countries, and how this work can support U.S. objectives even as USAID considers shutting down missions in these countries. The sector must acknowledge that the complexity of the NGO sector is growing as the number, experience, and capability of nongovernmental organizations (especially in the developing world) continues to evolve. New partnerships can and should be developed. All of these changes would enhance the credibility and desirability of the development ecosystem to the U.S. government. This would serve to buttress the view that the system is a strategic asset for the United States.

Finally, USAID must consider the risks inherent in the proposed goal of shifting 30 percent of funding to local governments and implementing partners. Accountability of U.S.-based implementers is a powerful strength of the current system. Risk tolerance for foreign assistance is exceedingly low—whether this is correct is beside the point—which is highly unlikely to change in the future. Congress is facing the possibility of sequestration at the beginning of 2013, and even if a deal is reached, budget cuts almost surely will happen at USAID and other U.S. development agencies. The Obama administration's own budget projections demonstrate cuts coming after 2013.[31] This environment of presumed budget austerity will only heighten concerns over risk, accountability, and effectiveness of aid. Although government-to-government support and the use of local implementing partners have had some successes, they come with higher risks than the system can stand presently.

Both USAID and the development implementers should consider the following initial recommendations to begin unwinding the emotions of the past couple of years:

1. *Rethink IPR's Target of 30 Percent Direct Financing and Trust Field Experts to Make Delivery Decision:* USAID should consider substantially reducing the amount of foreign assistance directed toward government-to-government project support and local organizations based on its own history of deploying such mechanisms as well as recent donor experiences. While the UK's DFID eventually reached 20 percent of spending directed toward budget support, it has scaled back the percentage significantly as it encountered the challenges outlined above. USAID's experience found many of the same issues, which the agency is likely to continue encountering as missions attempt to reach the 30 percent figure.

   a. Rather than focusing on an arbitrary figure directed toward localized aid, USAID should instead rely upon the discretion of its mission directors to determine the best form of aid delivery that will accomplish the agency's objectives. If that means working with a strong, competent ministry to implement specific projects, then so be it. The same is equally true of local for-profit and nonprofit implementing partners or as will likely be the case for U.S. partners. Trust the experts to make the right decision for the right situation. The agency

31. See Priscilla Hermann, David Morrow, and Gregory Sanders, *Contract Spending by the Department of State and the U.S. Agency for International Development* (Washington, D.C.: Center for Strategic and International Studies, June 2012), 4.

should then conduct a comprehensive, in-depth evaluation of the program before allocating additional resources to those direct-assistance mechanisms. The efforts to date could be the basis of detailed new guidelines for this.

b. If USAID goes forward with a specific percentage, it should explicitly define what is attributable under IPR's direct, local assistance. As the agency itself acknowledges, USAID missions already do a significant amount of sub-granting and subcontracting to local organizations, relying on U.S. implementers for oversight, accountability, and capacity building. According to sources knowledgeable with IPR, these current activities do not count toward the 30 percent. It is unclear why this does not count, but it should be corrected by USAID.[32]

c. In addition, setting this numerical target within three fiscal years is unrealistic. Most capacity takes much longer than the typical three-year project cycle to come about. Many examples exist of institutions being created and spun off from USAID projects, but these independent institutions take easily ten years to happen.

2. *Fix Consultation and Communication:* A major obstacle during the roll-out of USAID *Forward* was a series of misunderstandings over the intent of the proposed reforms on the part of the development implementers. Groups like InterAction have made it clear that they have not been consulted at all in this process—in spite of their having many local NGO partners, many of which might ultimately benefit from USAID's IPR. This situation has been exacerbated by less-than-artful comments by USAID's leadership over the role and motivations of U.S. private sector development implementers. Better and more frequent engagement and communication between USAID and U.S. private sector development implementers may remedy this lack of understanding. If USAID wants to reach more local actors, then the existing U.S. development implementer community is a logical outlet, because of their already extensive reliance on developing world partners. Ultimately, they are close international development partners and should work to ensure that perspectives, positions, and their underlying rationale are well understood.[33]

3. *Target Genuine Local Capacity Building:* One belief seems to be that that USAID will achieve its local capacity-building goals simply by running assistance funding through local, host-country organizations. No doubt there will be some improvements, but expectations should be signifi-

32. In addition, the authors have come across other instances of how the local aid requirement is being interpreted. One U.S.-based NGO recently was awarded an RFA that would be implemented by a local affiliate of the NGO. The local affiliate has a local-majority board, follows local law, and is registered locally. However, USAID told the U.S.-based NGO that it must divest itself of the local affiliate as quickly as possible. In another instance, an award was made to a PIO for work in Colombia, and according to a source with knowledge of the process, that PIO award was counted toward meeting the Colombia mission's 30 percent figure.

33. InterAction recently released a memo that argued for far greater transparency in USAID's IPR process. It argues that, as critical partners in development, the NGOs (and by implication the for-profit implementers as well) should be consulted by USAID because of their on-the-ground knowledge of local systems and partners. For its part, the Modernizing Foreign Assistance Network released its own letter that endorses the broad goals of USAID's IPR agenda. See InterAction, "Procurement for Country Ownership and Better Results: Recommendations for Improving USAID's Implementation and Procurement Reform," Policy Paper, September 2012, http://www.interaction.org/sites/default/files/InterAction%20Procurement%20for%20Country%20Ownership%20and%20Better%20Results%20-%20Sept%202012.pdf; Modernizing Foreign Assistance Network, "Open Letter to Administrator Shah," September 27, 2012, http://www.modernizeaid.net/wp-content/uploads/2012/09/FINAL-Open-Letter-on-IPR.pdf.

cantly tempered. Local capacity building is already often achieved through technical assistance, training, sub-grant programs, and other measures under way through the development ecosystem. U.S. development implementers are playing critical roles in these areas, because of their skills and personnel who can provide the technical assistance or train individuals. USAID should consider launching a cost-benefit analysis of these capacity-building, institutional development efforts versus government-to-government support and the use of local implementing partners.

4. *Engage New Partners:* USAID should be more creative in how it defines eligible partners, beyond government-to-government budget support, use of local organizations, and other methods. Leveraging local country groups in third countries is an example of how new partnership can build local capacity. For example, this might take the form of working with the Brazilian aid agency or other Brazilian actors to support agricultural development in Lusophone Africa. USAID's role in these areas could predominately be funding, or it could combine its technical assistance with that of the Brazilians, through joint or parallel funding. USAID should also look to work with democracy groups from countries such as Poland, the Czech Republic, and Indonesia, using these groups to work with civil society in Tunisia, Egypt, and other Arab Spring countries. Local capacity building should lend itself to creativity, and USAID should be flexible enough to engage with new partners in this area.
5. *Take a Strategic View of the Sector:* Although many within the U.S. private sector who engage the development implementation have taken steps to form a united front, these efforts remain largely disjointed. The for-profit implementers now have their own voice through the Coalition of International Development Companies (CIDC), and the nonprofits have the long-standing InterAction. But far more can be done. As this paper argues, the two groups represent a strategic asset that advances U.S. foreign and national-security policy objectives. It is incumbent on CIDC and InterAction to make this case more clearly through the greater use of analysis and closer coordination of efforts. This will require the commitment of real financial resources by both groups of implementers. It is not a call for lobbying, but simply making the case to USAID and others that they contribute to the reform and effectiveness of U.S. foreign assistance abroad. This requires that the development implementers put together a data-driven study on the cost-benefits of the various models of aid delivery and a study on the development effectiveness of relying on the current system versus other delivery models.
6. *Reinterpret Ownership and Capacity Building:* Finding ways to increase country ownership will remain at the center of international development for the foreseeable future, because of the continued centrality of the Paris/Accra/Busan agenda. IPR's allocation of increased funds for government-to-government financing and local organizations is one interpretation of building local capacity. There are other conceivable ways to increase country ownership while also increasing local capacity. A major task of those who disagree with this approach is to offer detailed policy alternatives. Clearly, local capacity building occurs now through the network of U.S.-based for-profit and nonprofit implementers. This community, however, must present a clearer picture of how it achieves local capacity building now, and how it could increase both ownership and capacity building. This will likely require a study to examine efforts under way and how they could be increased and strengthened.

APPENDIX A: WORKING GROUP MEETING 1
PERSPECTIVES ON BUILDING LOCAL CAPACITY ON THE GROUND

The goal in development is to build local capacity to the point where implementers, practitioners, and funding mechanisms are no longer necessary. The international development landscape is shifting; traditional donor nations now provide a smaller share of overall assistance, and development practitioners must seek a self-sustaining model for aid. Official Development Assistance (ODA) donors are effectively minority shareholders in global development, and must focus on building the capacities that will have the largest value returns. Capacity building involves not only development practitioners and implementers, but also corporations and governments successfully coordinating efforts to create an ecosystem suitable for sustained growth. It is crucial that leaders from these fields be able to communicate in an open and productive manner in capacity-building efforts moving forward.

Capacity building is a goal distinct from traditional three- to five-year development program objectives, and panel member consensus indicated that success in local capacity growth must be evaluated in new terms. It was generally acknowledged that, in the vast majority of cases, the expertise and organizational capacity necessary for implementing development projects are still found with donor agencies or implementers based in donor countries. In this regard, local capacity building offers a paradoxical challenge; development professionals "must work themselves out of a job," not only by designing projects with sustainable long-term goals, but by building the "in-country" skills necessary for project management in the future. Measuring success along these lines provides a challenge for typical outcome metrics. Efforts to build local capacity to deliver specific programmatic objectives are clearly distinct from building the in-country capacity to design and pursue an agenda for community development. While panel members generally recognized that success metrics are necessary to ensure the efficient and logical allocation of limited development resources, they believed holistic capacity growth is not so easily quantified.

The unique challenges presented by local capacity-building efforts must be met with implementation programs that account for specific local needs and skills from the outset. While some participants felt that pressure to innovate led to abandoning successful and tried techniques, they generally agreed that new approaches and considerations will be necessary in promoting local capacity growth. Several panel members pointed toward successful projects that utilized phased withdrawals and capital reflows to hand project responsibility over to local actors. In these cases, it was vital to endow the local organizations and implementers who would assume project responsibility with a sense of project ownership.

Reassessing the relationship between donor and recipient is one of the most important steps in facilitating in-country ownership for development programs. A large portion of the discussion focused on this topic, and participants widely agreed that local capacity-building efforts are largely nominal until local actors are engaged and ready to accept ownership in their own development. If a relationship is defined as external donor and local recipient, the local organization will tailor its capacity and mission to successfully deliver the results desired by the outside group, thereby securing further funding. It is easy to fall prey to this trap without even realizing; however, in the context of local capacity building, this model is self-defeating. One participant characterized this process as the creation of "mini-me" organizations. If a local implementer alters its programmatic mission to align with that of an external donor, the organization has allowed its vision to be hijacked at the cost of its unique perspective and capacity.

Relationships defined as partnerships can help avoid this pitfall, but require that the local partner be involved in a two-way dialogue from the earliest stages of project planning. Establishing a dynamic based on equal power shares is difficult when one side controls the funding, but this is exactly what is needed. In order to overcome the inherent challenges of ownership building, it is imperative to have a clear understanding of the community and organization with which partnership is being established. One panel member described the process as leveraging the existing skills of the partner organization in order to achieve a goal in line with that organization's overall mission. Further, installing a team of local administrators, employees, and field workers is of utmost importance in any sustainable project. If the team implementing the project is composed of expatriate managerial talent and outside development practitioners, any attempt to create local programmatic ownership will be moot. Traditional western donors and implementers must assume a role grounded in providing guidance and facilitating local success through partnership if they are to build true local capacity.

Branching from the idea of partnership, several participants posited that establishing a local development "ecosystem" is a holistic growth process; capacity building must occur on multiple levels in order for the growth to be meaningful and sustainable. First-level capacity growth is kick-started by selecting a small group of expert trainers and managerial talent. These people must have intimate knowledge of the community as well as understanding of the project goals and means, as they represent the first line of on-the-ground development expertise. Responsibility for creating a foundation of local ownership and technical know-how will fall to these primary operators. Intermediary-level capacity building results from the original round of development projects; ideally the feedback loop from the initial projects establishes permanent, local institutions capable of creating and carrying out independent programmatic objectives. This is essential in establishing local capacity, and represents true growth beyond dependency on outside implementers and funding. Capital reflows from original projects provide a creative mechanism of seed funding for these organizations, and allow for a sustainable model of capacity growth. Participants generally agreed that final-level capacity building comes from the dispersal of human capacity created in earlier rounds of development, and the creation of tertiary groups and organization unplanned and unimagined in the original planning process. Networks of skilled local professionals allow for in-country development to be self-directed and sustainable. With world-class organization, technical capacity, and managerial capacity, communities previously dependent upon external assistance and implementation can foster their own development.

Key discussion points included:

- There is a clear distinction between solving an immediate problem and long-term capacity building. Consider the difference between providing a means for rural farmers to sell goods at a centralized market, and providing the skill and knowledge for developing and maintaining a national highway system.

- Innovation is the trend in development, but sometimes the drive to innovate can be counterproductive. Techniques and models should not be cast aside if they prove effective. It sometimes seems politically unacceptable to promote an older method of development or capacity building, even if it worked.
- Long-term partnerships may be more productive than contracts in promoting this sort of growth. A sense of ownership is one of the most important aspects of capacity building; otherwise, assistance recipients will continue to depend upon support from external donors and implementers. Understanding the environment in which work is being done, as well as the people with whom the work is done, is paramount. Projects seeking to build capacity should leverage local skills to achieve local goals.
- There is a role for short-term partnerships and outcome-based contracts. Not all organizations are suitable for true partnerships, and in many situations contracts will provide accountability in achieving results.
- Most development projects operate within a three- to five-year lifespan. This is not enough time to implement and measure the success of capacity building. Creating a sustainable development environment takes on the order of decades, not years, and requires cultivation on many levels. Human capacity, organizational capacity, institutional capacity, value-chain development, and market supply are all parts of the equation.
- Measuring and attributing the success of local capacity building will be difficult. The process is holistic, and requires a large foundation of work. Monitoring and evaluation cannot be abandoned, but there must be recognition that techniques typically utilized cannot capture the full measure of progress. We need to decide what matters in capacity-building projects: measuring and attributing success, or promoting broad-based development.
- In order to create an environment of sustainable development, business, government, and development professionals will all play important roles. While all of these organizations operate differently, and have admittedly different goals, participants agreed that it should be possible to coordinate interests in order to promote sustained development. Ongoing, open, and honest dialogue will be necessary for this to occur.

Local capacity building is a new-age effort to promote development while considering the new-age global realities. Traditional donors face new constraints, and in parallel developing nations have a growing capacity for self-directed development. The process and learning curve in developing local capacity are still unknown, but forums such as the one hosted at CSIS can go a long way in facilitating interdisciplinary cooperation to curtail growing pains. Traditional development methods and metrics of success are not necessarily suited to capacity building. Capacity building requires partnerships with local actors, and deeper engagement will be necessary to promote local project ownership. Building a local development ecosystem requires organic growth on many levels. In the pursuit of a better, more prosperous, more peaceful world, local capacity building offers a sustainable model for development efforts, and all interested parties must coordinate action and interests to achieve success.

APPENDIX B: WORKING GROUP MEETING 2
THE RESULTS, ACCOUNTABILITY, AND TRANSPARENCY NEXUS

Development, especially in its most modern form, is not about the transfer of funds or services, but the transfer of power. It serves as a political exercise, utilizing economic processes to embed institutional, organizational, and managerial capacity in recipient nations. This is, in many regards, an evolution in our conception of development. As emerging nations become more dynamic and capable, and traditional donor nations face down new austerity measures, the impetus in development is shifting. Sustainable development, particularly through local capacity building, is the new trend; however, along with this shift is an increased push for reform in development practice. The emerging focus in development is on results, accountability, and transparency (RAT). Conditionality has long been part of assistance programs, but the nature of this conditionality is now different. Transparency matters, as do outcomes, but donor nations no longer offer the same prescriptive policies. Instead, accountability and transparency have taken the center-stage. Beginning with planning and goal formation, cooperative partnerships that rely upon new-age metrics to evaluate success have become the norm. While the best way to utilize these measurements of success remains to be seen, the ability to quantify transparency and operational success are without doubt among the development community's most important tools going forward.

Conditionality, which has long been part of international assistance programs, is changing in terms of nature and goals. With this is mind, some participants felt the "Washington Consensus" model of aid and reform is now an "anachronism." The holistic and simultaneously implemented policy changes pursued under the Washington Consensus model are no longer favored as the ideal means of promoting growth. Instead, each development case is taken as a unique circumstance and sequential constraints analysis is used to determine what changes are most suitable. Modern conditionality does not dictate goals or policy prescriptions. Fiduciary conditionality ensures that funds are being managed in a transparent and accountable manner, while outcome conditionality mandates that specific and substantive benchmarks be achieved. This new conception of conditionality allows for greater flexibility in program implementation, as a unique problem-solving approach is required case-by-case. This approach also places greater responsibility in the hands of local actors, a key feature in any effort to build local capacity. Problems are identified, a plan is formed, and funds are dispersed with conditions set regarding transparent and accountable spending along with required levels of achievement. Policy prescription is a diminishing feature in development programs. Many panelists agreed, however, that short-term efficiency costs will accompany this shift. Development professionals need to implement systematic approaches to mitigate this risk. Namely, projects need to incorporate accountability requirements.

As the norm shifts toward handing more project responsibility to host nations, so too must donor nations alter their conception and evaluation of accountability. Donor countries are accountable to the taxpayers who provide the funding distributed abroad, and these donors must be able to ensure the transparent use of their funds. Implementers must also hold assistance recipients responsible, but the most important task is providing the knowledge and means for citizens in developing nations to demand transparency and good governance. Capital investment provides a means for embedding accountability and capacity building into normal political processes. The funding, spent well, can serve as the fuel for sustainable change. In order for systematic change to be lasting, the populace must be armed with the knowledge and capacity to hold their own government accountable for its actions.

Change begins in the earliest stages of project development; goal formation, identification of growth constraints, and specific policy decisions must all occur with the local partner from the outset. Accountability emerges from standardized practices and processes—it is a system. Coordinating goals and leveraging the unique abilities of local actors engages partners and provides a sense of project ownership. If a local actor is able to formulate and implement a plan, and the populace has the information and means for demanding accountability, there is a sustainable mechanism for locally driven development.

Modern technology's growth has provided cutting-edge tools to measure, quantify, and analyze project success and transparency. As developed western nations combat budget austerity, it is increasingly necessary to justify development spending with quantifiable results. Panelists acknowledged that technological advances are contributing to the evolution in development. This growth has brought new questions to the fore. While the ability to measure has grown, we must reevaluate what is measured and for what purpose. A standardized system of project metrics would ensure that the data produced was clear and pertinent to actual success. While participants generally viewed the revolution in metrics as a step forward, they were wary of over measuring; the concern was that over measurement could interfere with project operations. Many participants saw value in coordinating metrics with host countries to avoid overburdening projects with monitoring. Result measurement must focus on creating data that can be utilized for actual improvement.

Many participants felt that overemphasis on short-term achievement can have perverse effects on the program's long-term goals and implementation. A fascination with results could lead to a donor preferring short-term projects at the expense of long-term sustainable capacity efforts. New metrics allow for project monitoring and fine-tuning, as well as provide a means for satisfying donor constituencies with quantifiable measures, but a balance must be struck. Long-term impact can be captured at a number of levels, but intermediary benchmarks are useful tools in monitoring project success. It may be true that "you can't manage what you can't measure," but this demands a clear vision of managerial goals. What is measured, how it is measured, and how this information is leveraged to improve output are all central concerns. An effective combination of short-term benchmarks and metrics of long-term success minimizes exposure to risk, and offers the potential to increase project impact at all stages.

In any project, risk assessment must occur at the outset, and reflect a reasonable analysis of on-the-ground realities in order to leave room for failure. Many of the panelists felt that risk aversion, specifically the fear of failure, led development implementers to pursue less ambitious projects. Some risks are beyond the control of implementers and contractors, for example, implementing in-country policy reform. Accountability extends to only those things within an actor's capacity to control, and project inefficiencies emerging from unforeseen and uncontrollable circumstances should not result in a negative assessment of project success. Additionally, while all panelists agreed that corruption should be combatted whenever possible, it is a reality of doing business in some regions. Particularly in post-conflict and fragile states, corruption to some degree is nearly inevitable. Some of the countries that require assistance most desperately are also among the world's most corrupt. These countries still need assistance, and donor nations ought to be able to work within the constraints of a less-than-perfect system when necessary. The alternative is to stop providing aid. Finally, participants hoped that in the future development projects would have greater room for failure. If project shortcomings are met with slashes to funding or delayed professional advancement, innovation will be discouraged, project goals will become less ambitious, and statistics will be skewed to provide a more positive picture of results.

Other notable discussion points included:

- Civil society development is a key feature in creating a relationship of accountability between governments receiving aid and their people. Civil society provides the organizational capacity for directed and specific social discourse and transparency.
- Conditionality has changed. Financial transparency is paired with outcome conditionality, but program specifics and policy directives are avoided. Self-driven local growth is most sustainable and meaningful.
- Sequential implementation is preferable to simultaneous and wholesale policy change. Constraints to growth should be identified and removed in a logical order.
- Models of growth do not translate. Each situation and environment requires its own unique analysis and project formation. What works in Afghanistan will not likely translate to Bangladesh.
- Engaging with the host country in all steps of project planning and implementation is as important as actual project outcomes. Embedding accountability and capacity is the result of a systematic process.
- Countries are now armed with a variety of tools and metrics to measure results and output; however, they must determine what data to measure, and how this information can improve operations.
- There is an inherent tension between short-term measurements and long-term goals. Short-term benchmarks cannot be allowed to compromise overall project aims, nor can they be totally ignored. It is necessary to find balance between monitoring intermediary progress and achieving long-term success.
- As development norms shift toward greater in-country responsibility for implementation, there will be short-term efficiency losses. Risk exists in any project, but failure will occur and can inform a productive learning process. Fear of failure cannot be a paralyzing force.

Development is undergoing systemic change. More program autonomy is granted to nations seeking to stimulate their own development, pushing the conversation around results, accountability, and transparency to the front of the development agenda. Technological innovation has provided the means and metrics for identifying project outcome efficiency, and allows donors to conceive of accountability in new ways. Supply-side accountability from donor to recipient matters, but the demand-side accountability between a recipient government and its populace is far more important. An informed and mobilized civil society can embed accountability, building long-term sustainable capacity. As these changes occur, there must be room for failure; allowing for a learning process will enable nations to pursue and achieve their most ambitious goals.

APPENDIX C: WORKING GROUP MEETING 3
AID EFFECTIVENESS IN AN AGE OF AUSTERITY

In recent decades there have been large success stories in development, but new economic and global realities are forcing development practitioners to reconsider the traditional assistance model. In an era of budget austerity, governments must justify development spending with clear results. From the earliest stages of project planning, assistance spending is increasingly focused toward the regions and sectors where it will have the largest impact. This type of consideration has prompted an evaluation of long-term goals in assistance programs, and has caused a shift toward capacity building and local partnership. The pursuit of sustainable development is an admirable long-term goal, but this type of broad-based growth must be supported by specific benchmarks and achievable short-term results. The challenges of austerity are causing the development community to carefully evaluate long-standing practices and assumptions, and will continue to motivate innovation and change in the coming years.

The international economic developments of recent years have brought development to a landmark moment; as global realities and power structures realign, the development model has changed. Domestic budgets, particularly in OECD countries, face extreme scrutiny. Austerity and cuts to funding are certainties in most traditional donor nations, as indicated by the 2.7 percent fall in global Official Development Assistance (ODA) during FY 2011. Even in the United States, the world's largest provider of ODA by dollar amount, overall contribution dropped by nearly a full percent. Beyond the decline of traditional development players, a greater variety of actors have entered the global development arena. The private sector, individual donors, and Middle Income Countries (MICs) play larger roles than ever before. With this backdrop in mind, governments face increased pressure to justify spending. Innovative development techniques that seek to maximize the impact of spending are the trend, and aim to provide a more sustainable development model. This success needs to be advertised, and the advances in the development field publicized, if funding is going to continue to flow at near-customary levels.

Participants characterized traditional donors as "minority shareholders" in the greater portfolio of development funding, so the new challenge lies in leveraging available funding to provide the largest and most meaningful impact possible. Development practitioners aim to punch above their weight with innovative project targeting and techniques. This begins in the earliest stages of project planning. Equity targeting aims aid toward the most disadvantaged and marginalized members of the global community, and allows for huge quality-of-life adjustments through simple fixes. Participants generally recognized that there is greater potential for improvement and greater impact per dollar spent when targeting the most undeveloped regions of the world. Sector targeting also provides an analytical approach to selecting the specific aims of a development project. Seeking impact and multiplier effects in development investment is not a new idea, but this shift is occurring as stakeholders are calling the long-term goals of development assistance into the spotlight.

There has been a fundamental shift in the ambition and ultimate purpose of development efforts, away from specific problem solving and toward broad-based development and capacity building. One of the challenges inherent to capacity building development projects lies in the limited timeframe available. The results of a capacity-building program are difficult to quantify when the project is confined to a three- to five-year life cycle. One method for addressing this difficulty has been local partnership in project implementation. These partnerships allow for greater input from local participants beginning in the earliest stages of project planning. Actors in developing countries have higher levels of education and greater technical ability than ever before; these local implementers are capable of identifying community goals and executing complex programs, particularly when professional development practitioners are available to provide technical assistance. This approach endows a sense of project ownership, and embeds the capacity for sustained development into the organizational structure of the local partner. This model allows for a "disappearing assistance footprint," as the role of outside implementers and even aid mechanisms are progressively phased out. This is an attractive model for donors looking to maximize the long-term impact of spending.

Short-term benchmarks are important in reaching longer-term goals, and technological growth has produced modern metrics to evaluate project success. This element is crucial in capacity building, as it provides a means of measuring progress and improving project mechanisms in real time; reflection can occur mid-process, decreasing risk exposure as aid funding declines. Short-term and specific outcome goals must be selected carefully so they are not at odds with overall project mission, the experts agreed, but can be a useful tool for increasing project efficiency.

Participants also recognized that the larger role of local implementers must be accompanied by heightened accountability and transparency; assistance funding is increasingly precious, and the misappropriation or misuse of development dollars would likely prove devastating for the future of any project. Transparency and accountability must exist between donors and recipients to ensure responsible allotment of funding; but more importantly, a relationship of accountability must exist between the governments receiving assistance and the in-country populace that the assistance targets. Civil-society development and open information are key components in promoting this relationship of accountability, and are the most important and sustainable mechanism for promoting transparent governance and development activity.

Some other key points included:

- Aid spending requires justification in our era of austerity. This justification comes in the form of outcomes, quantified with standardized data.
- There is a clear distinction between the pursuit of discrete short-term goals, and long-term capacity-building projects. That said, long-term goals require intermediary checkpoints. The selection of short-term goals must keep the long-term mission in mind.
- Development partnerships must be based upon open and ongoing dialogue. Ideally, a partnership utilizes the expertise of outside implementers to leverage the specific skill set of local partners.
- Policy prescription employed under the "Washington Consensus" model is no longer desirable. Accountability, transparency, and outcomes are the new focus of development models.
- Facilitating a relationship of accountability between a government and its people is one of the most important aspects of cultivating a sustainable development ecosystem. The goals of capacity-building projects should include first-level civil-society organization.

- Many projects, particularly those that result in the dispersal of human capacity, cannot be properly evaluated for decades. Leadership building and professional-network creation are two examples.
- Delivering the highest impact possible with limited development funding is a matter of targeting. Projects should seek out the most disadvantaged, marginalized, and destitute in order to maximize returns to equity.
- Foreign policy plays a large role in allocating development and assistance funding. Foreign policy has always served as part of the justification for development spending, and foreign policy will often dictate when resources are given and when they are taken away.
- Tax reform in developing nations would allow for increased revenue. Countries could reinvest this funding for development purposes.
- Multilateral and cooperative aid projects are one way of responding to the shifting aid landscape.

Globalization and international economic crisis have driven forward changes in the development community. As traditional donors encounter new budget constraints, and new actors emerge as significant contributors in the field of international assistance, the traditional model for development is shifting. Governments must justify spending by seeking value in investment, and ensuring responsible handling of assistance funding. Local capacity building and sustainable development allow for high-impact investment and create multiplier effects for donor spending. Short-term benchmarks and specific intermediary goals will allow close management of the process. Under this new model, accountability and transparency take on greater value. Aid-recipient countries must demonstrate responsible handling of assistance funding, or else it will be shut off. The world has changed in the last decade, and so too must development professionals alter their methods and processes.

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