Number 28, July 2015

briefing paper

Strengthening Local Capacity: The Weak Link in Sustainable Development

by Faustine Wabwire

Bread for the World Institute provides policy analysis on hunger and strategies to end it. The Institute educates opinion leaders, policy makers and the public about hunger in the United States and abroad.

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Leaders of a farmer's collective in Rwanda, the Cooperative des Agriculteurs de Cereales, discuss the strategies they use to raise productivity and improve quality with Bread for the World Institute researchers.

Abstract

Country ownership is critical to achieving development outcomes such as reducing hunger and extreme poverty. Well-functioning state and non-state institutions are necessary elements of an enabling environment—conditions that facilitate countries' efforts to drive their own development.

The post-2015 development agenda provides a tremendous opportunity for a renewed approach to country-led development. Such an approach should ask and answer fundamental questions to country-led development: What is lacking? And, perhaps most importantly, how do we ensure that efforts have an impact on communities? Such efforts would be strengthened by a results-driven, systemic strategy whose goal would be to catalyze authentic local determination of development priorities, resources, and methods of implementation. A comprehensive understanding of the process of LCD will help identify which strategies would be most effective.

The first step could be to develop a policy to break down barriers to change, such as programs that are isolated ("siloed") and competing interests. Development effectiveness should be measured by how well the results help achieve development goals. The policy should also examine to what extent development partners such as the United States prioritize local system strengthening. Greater emphasis should be placed on strong indicators to measure progress, support evidence-based policymaking and promote mutual transparency and accountability.

Key Points

- Stronger local capacity for development—the ability of individuals and institutions to perform functions, solve problems, and achieve goals—is essential to building resilience, spurring broad-based economic growth, and achieving the ambitious global development goals of the post-2015 era.
- Developing capacity takes time and therefore requires sustained political will. Short-term capacity-building objectives should be incorporated into a longer-term strategy. Strengthening local capacity should be recognized as a core objective of U.S. development assistance.
- The U.S. government should take the initiative to design a Local Capacity Development (LCD) strategy. The strategy should include collecting data on specific indicators not only for the dollars, activities and output of development assistance, but also its impact.
- There is no one-size-fits-all approach to strengthening local capacity. The strategy must take into account how the informal aspects of local systems—both state and non-state—work, as well as how they are influenced by the local social and political environment.
- The U.S. government could make better use of its resource base by working in partnership with multilateral agencies, local state and non-state actors and research institutions. This would enable more coordination of goals, sharing of expertise, and collaboration on implementing programs. In turn, there will be greater long-term development benefits in partner countries.

Faustine Wabwire is Senior Foreign Assistance Policy Analyst at Bread for the World Institute.

Introduction: History of Country-Led Development Policy

Country ownership—meaning that countries decide on and direct their own development—is the foundation of sustainable development. Country ownership requires strong, effective institutions—both government civil society and the private sector—with the capacity to drive the development process. The Organization for Economic Cooperation and Development (OECD) defines capacity development as the process through which individuals, groups, and countries develop and enhance their ability to perform functions, solve problems, and achieve objectives.[1]

The International Conference on Financing for Development, the first in a series of influential meetings on development assistance, took place in 2002 in Monterrey, Mexico. The Monterrey meeting and its follow-up, the 2003 High-Level Forum on Harmonization held in Rome, set in motion a paradigm shift: *aligning aid with a recipient country's own development agenda became the new norm.* The "donor knows best" model had already been under assault in some quarters. At Monterrey, the governments of participating developing countries agreed to adopt "sound" economic policies, improve standards of governance, and invest more of their own resources in reducing poverty and meeting the other Millennium Development Goals (MDGs).

Donor countries, in turn, agreed not only to provide more aid but also to improve its quality—for example, by improving coordination among the projects that donors funded. This is important because government officials in many developing countries spend thousands of hours every year customizing reports to meet varying donor requirements. A 2010 OECD report estimated that the duplication of effort caused by lack of donor coordination wastes, on average, $5 billion a year.[2] Also at the Monterrey Summit, President George W. Bush announced his plan to launch the Millennium Challenge Account (MCA), which would focus on providing U.S. foreign assistance to low-income countries with a record of good governance and investing in their people.

In 2005, a meeting in Paris sought to advance the Monterrey and Rome agenda. The Paris Declaration on Aid Effectiveness took bolder steps to build a more authentic model of country-led development—its principles went further than any previous agreement to outline what was needed for a new kind of partnership. More than 100 signatories—donor governments, developing country governments, multilateral institutions, and regional development banks—agreed to work toward fully implementing the principles, which include:

- Aid-recipient countries own their development agendas.
- Donors align aid programs with country-led strategies.

Photo by Racine Tucker-Hamilton/Bread for the World

The Project Peanut Butter Facility in Blantyre, Malawi, contributes to local and regional capacity to treat acutely malnourished children with its production of ready-to-eat therapeutic foods.

- Donors harmonize their activities in a given country.
- All parties agree to a higher standard of accountability.
- Development programs are equipped with improved systems of measuring and evaluating results.

Ten years later, however, the Paris Declaration remains more of a visionary document than an operational one. By their own accounting, donor countries in the Organization for Economic Cooperation and Development (OECD) have met only one of its 13 targets, with moderate progress on seven others.[3]

In 2008, at a meeting in Accra, Ghana, civil society—another stakeholder group—gained recognition for its contributions to achieving the MDGs. In the Accra Agenda for Action, both donors and developing country governments committed to working with civil society. They recognized that civil society increases aid effectiveness by "ensuring the poorest, those who are supposed to benefit from aid, get their voices heard in the development process." [4]

More recently, in 2011, the Busan Partnership for Effective Development highlighted the need for inclusive development. It emphasized partnership with new roles and responsibilities for governments, civil society and the private sector.

Monterrey, Rome, Paris, Accra, and Busan are all milestones in an evolving partnership between rich and poor countries and between governments and civil societies. Each meeting added to the growing recognition that long-term sustainable development requires all stakeholders working together.

The above section is adapted from Bread for the World's 2013 Hunger Report—*Within Reach: Global Development Goals*

2015 offers tremendous opportunities for global development. It is the culmination of a 15-year effort to reach the MDGs. Negotiations to set a post-2015 development agenda are at an advanced stage, including The Third International Conference on Financing for Development (FfD) (July2015), in Addis Ababa. The Third International Conference on Financing for Development (FfD) will be held in July 2015, in

Addis Ababa. Unlike the framing of the MDGs, the process of determining a "post-2015" development agenda and the means of implementing the agenda—has featured an active global debate, including Domestic Resource Mobilization (DRM) as an essential element in the financing of the ambitious post-2015 agenda.

Strengthening Capacity—For What?

The quality of institutions in a country is a crucial factor in determining its capacity to solve problems and achieve development goals. In turn, the ability of those institutions to yield and sustain results is influenced by the environment in which they are embedded, including existing structures of power—social, cultural and political economy. Capacity strengthening therefore goes far beyond enhancing the knowledge and skills of individuals; to creating and sustaining incentives for effective local systems—both state and non-state to achieve development outcomes. For example, development partners—including the United States—should commit to aligning support with existing country/regional frameworks such as the Comprehensive Africa Agriculture Development Program[5] (CAADP), to augment the capacity of national and multi-stakeholder agricultural systems to achieve foods security and nutrition, mitigate the effects of climate change, boost economic growth and promote national evidence-based policy making. Local capacity development is the bedrock of country ownership.

Achieving sustainable country-led development outcomes requires more than just financing programs. For example, a government's capacity to mobilize domestic resources, or to manage external resources effectively, is largely determined by the capacity of its financial management systems to carry out essential functions such as taxation, procurement, budgeting, and auditing. Yet for the most part, donor commitment to local capacity development remains limited—and focused mainly on the capacity to manage donor resources. One reason that LCD efforts have fallen short is that LCD is not a high enough priority in the donors' efforts to make development assistance more effective. For example, one of the targets in the Paris Declaration on Aid Effectiveness[6] is to strengthen the country systems necessary to manage donor resources effectively. Though important, a narrow focus on managing donor resources is inadequate.

In May 2013, the High Level Panel on the post-2015 development agenda—a group tasked with advising the United Nations Secretary General—released *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*. The report advocates five "global shifts": **Leave no one behind; Put sustainable development at the core; Transform economies for jobs and inclusive growth; Build peace and effective, open, and accountable institutions for all; and Forge a new global partnership.** Both U.N. Secretary General Ban Ki-moon and the High Level Panel have endorsed the idea of setting a goal for peace and effective governance based on the rule of law and sound institutions. Evidence suggests a direct correlation between the strength of a country's policy and institutional framework and its progress toward meeting the MDGs.[7]

The international community will soon finalize a post-2015 framework for development, the Sustainable Development Goals (SDGs).[8] This is a tremendous opportunity for the U.S. government and its development partners to recognize the importance of strengthening local capacity. The SDGs should have both outcome and process targets. In order to achieve the *transformative shift* that will end hunger and extreme poverty by 2030, these targets should include indicators on strengthening local capacity.

This paper aims to spark further discussion on the need to prioritize local capacity development as a core objective of the U.S. government's development policy, essential to achieving the goals of ending hunger and poverty by 2030.

Greater Emphasis on Local Capacity in Evolving U.S. Development Policy

USAID was founded in 1961. During the 1960s, official development assistance (ODA) was 70 percent of all capital flows to developing countries. Today, foreign aid makes up just 13 percent.[9] Other sources of financing—trade, remittances, foreign direct investment, among others have increased. This shift in the global development landscape continues to reflect in the U.S. government's development policy.

Over the years, the U.S. government has aided local capacity development in a number of ways. Successive U.S. administrations have made significant efforts to reform U.S. foreign assistance programs, particularly in the areas of accountability and partner country buy-in, as seen in the creation of the Millennium Challenge Corporation (MCC)[10] under President George W. Bush. The Obama administration has built upon these reforms to further increase the efficacy and sustainability of foreign assistance programs. Early signs of progress under the MCC compacts led the administration to use a country-led approach in its newer initiative, Feed the Future, as well. USAID has also launched Innovation Labs, meant to foster new thinking in development practice. Efforts such as the 2010 Presidential Policy Directive on Global Development, the Foreign Assistance Dashboard, and the USAID Forward initiative have also sought to move U.S. development policy in the right direction, toward meaningful country ownership.

Millennium Challenge Corporation

Established in 2004, MCC was the first U.S. development program to use a country-led approach in its work with developing countries. MCC's approach to country-led development puts participating countries in the lead on both program development and implementation. Partner governments develop projects that reflect their needs in consultation with key stakeholders in their country, including civil society groups, the private sector, and beneficiary communities.

USAID Forward

In 2010, early in his tenure as administrator, former USAID Administrator Raj Shah began to implement USAID Forward, an ambitious reform agenda to transform the way the agency works.[11] The focus is on modernizing and strengthening USAID so it is better equipped to implement effective development programs. USAID's Local Solutions, formerly known as Implementation and Procurement Reform [IPR]), seeks to give partner countries more direct responsibility for development outcomes by increasing the agency's use of local institutions and systems.[12]

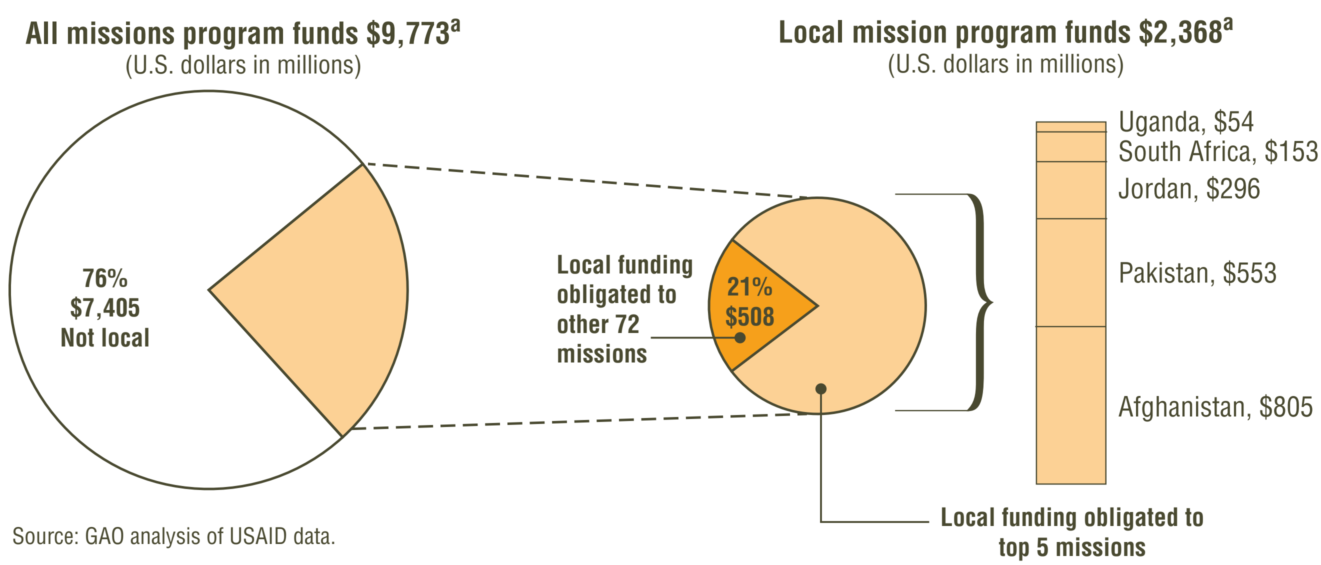
Local Solutions' initial goal was to invest approximately 30 percent of its funds through local actors by 2015—up from 11 percent in 2011. These local partners include nonprofits, governments, and businesses. According to USAID, "In FY 2012, the agency obligated 17.1 percent of program funds, including cash transfers, through local systems, and 24.2 percent by also adding qualifying trust funds." USAID is now institutionalizing its monitoring and reporting of these metrics in its annual operational plan. According to USAID's recently released *Local Solutions Framework,* "the ultimate goal is not to meet a metric but to build sufficient capacity in partner countries for them to achieve sustainable improvements."[13]

As part of its USAID Forward reforms, USAID has reinstituted formal processes for formulating country plans at the mission level. These plans are called Country Development Cooperation Strategies (CDCS). USAID reported significant progress toward its milestone of achieving "95 percent Mission Participation in Local Capacity Development (LCD) Training/Workshops." From a baseline of zero, 86 percent of the missions have now participated in LCD regional workshop trainings or regional summits."[14] In the recent past, the U.S. government has demonstrated commitment to a whole-of-government approach on local capacity development. USAID's Advisory Committee on Voluntary Foreign Aid (ACVFA) is the link between the U.S. government and private voluntary organizations active in humanitarian assistance and development. ACVFA has convened several working groups to provide USAID with recommendations on local capacity development.

In 2012, the ACVFA Working Group on Local Capacity was tasked with providing input on existing USAID policies on county ownership, particularly on what would be needed to ensure that USAID programs contribute to local capacity development. The working group published its report, *Improving Foreign Assistance: ACVFA Report on Best Practices in Local Capacity Building*, in February 2013.

In September 2013, ACVFA's Working Group on Feed the Future produced its report, *Broadening the Impact of Feed the Future through Collaboration with Civil Society: ACVFA Recommendations to Enhance Food Security and Nutrition Efforts.* In addition, this working group spearheaded the design and production of the first-ever Feed the Future Civil Society Action Plan.

Distributions of USAID Mission Program Funds, Local versus Nonlocal, and of Local Mission Program Funds by Mission Groups, Including Cash Transfers and All Qualifying Trust Funds, Fiscal Year 2012



Source: GAO analysis of USAID data.

Although ACVFA is a USAID advisory committee, both ACVFA working groups engaged extensively with other U.S. government agencies as well as with some local institutions, especially in Feed the Future countries, to gather relevant information on local capacity development. USAID's Feed the Future partner agencies include: the U.S. Departments of Agriculture, Commerce, State, and Treasury; the Millennium Challenge Corporation; the U.S. African Development Foundation; the Peace Corps; the Overseas Private Investment Corporation; and the Office of the U.S. Trade Representative.[15] A final paper with recommendations on local capacity development was released as part of a public ACVFA meeting in March 2013. Another paper on local consultation was launched at a public meeting in September 2013. USAID should carefully consider the breadth of these recommendations and pursue methods of incorporating them broadly at the mission level.

U.S. Department of Treasury

As the world looks to a post-2015 development agenda, it is becoming clear that domestic resource mobilization—both public and private—will be a part of the strategy to achieve its goals. Thus, strengthening public financial institutions has become more important than ever. The Office of Technical Assistance in the Treasury Department provides public financial management support to countries that are committed to reform. The technical assistance program strengthens the capacity of financial institutions by providing guidance on policies and procedures that strengthen systems and promote sustainable growth. Technical assistance can be given in five core areas: Budget and Financial Accountability; Banking and Financial Services; Government Debt Issuance and Management; Economic Crimes; and Revenue Policy and Administration.[16]

More broadly, the U.S. government is making progress on capacity development efforts, recognizing the importance and urgency of making local capacity the center of its development agenda. This is a good first step but not sufficient on its own. Going forward, efforts should focus more directly on partnering with local governments, local businesses, and NGOs. This would help countries deliver for their own people, while also enabling citizens to hold their governments accountable.

Issues in Capacity Development

Local capacity strengthening is hindered by rigid institutional barriers: lack of a coherent policy on local capacity development; a focus on inputs and quick results to the exclusion of longer-term outcomes and sustainability; fear of risk-taking and disregard for varying contexts; as well as lack of clarity on roles and responsibilities among development actors. To strengthen existing efforts, we recommend the following:

1. Develop a Capacity Development Policy

First, to reaffirm its commitment to prioritizing country-led development, the U.S. government should develop a capacity development policy. Experience over the years has shown that donors, including the U.S. government, tend to bypass local systems because they lack confidence in them. Yet part of the problem is that many existing capacity development programs lack a coherent policy on working with country systems in the first place. This is especially true in nations whose institutions have collapsed as a result of conflict or in countries where they simply lack adequate human and financial resources to stand on their own. Although it is judicious to be cautious in such circumstances, the U.S. government could champion country ownership and improve the local situation by partnering with affected countries to build or strengthen their capacity.

The process of development is fundamentally political. It's therefore necessary for the U.S. government to conduct a strong political economy analysis that will capture a more nuanced picture of local incentives and institutional structures. The right incentives, for example, tend to reinforce positive development outcomes, and vice versa. The U.S. government's new commitment to a systems-thinking approach requires political and financial commitment from both the administration and Congress. Business as usual will not be able to achieve the ambitious SDGs. The U.S. government's new policy should take into account the lessons of past experiences—the importance of prioritizing local actors, engendering flexibility, and providing room to experiment and learn—in program design and implementation. But also, and most importantly, the policy should adapt to the changing realities of the development landscape, including recent technological changes and new sources of financing that are shifting development processes. The policy should embrace a comprehensive systems model so that U.S. government investments not only fulfill U.S. government interests, but equally strengthen partner countries' institutions. This will enable the kind of transformative changes that will spur broad-based economic growth and end extreme poverty by 2030.

A strengthened U.S. government local capacity policy should prioritize:

Sustainability: Local capacity development requires genuine partnership, with a mutual understanding of the change process and evaluation terms.

Data and Advocacy: It is important to strengthen the capacity of local institutions to collect, analyze and utilize data. This is important for evidence-based decision making as well as for transparency and accountability.

Photo by Laura Elizabeth Pohl/Bread for the World

A lab technician on the job at St. Francis Healthcare Services in Uganda. A trained healthcare workforce large enough to meet the population's needs is a vital part of local capacity.

Results: The focus should shift away from the amount of money spent, program activities, and immediate outputs (such as the number of people trained) to demonstrating impact.

2. Establish Better Indicators on Local Capacity Development

Development outcomes are sustainable when people own the process—that is, they take responsibility for experimenting, learning, and setting clear expectations as to how they will achieve development goals. A focus on results, with strong indicators to demonstrate what changes have been made and how these changes inform decision-making, is crucial. The role of citizen advocacy cannot be overlooked. While external advocacy efforts often support development outcomes, it is the efforts of citizens and their own governments that will ultimately achieve the desired sustainable development objectives and goals. For example, transparency and easy access to budget information empowers citizens, as legitimate actors and tax payers, to demand accountability from their own governments. In turn, accurate data enables decision makers to make informed policy choices that could improve the livelihoods of their own people. Strengthening the advocacy capacity of local actors is therefore not only pragmatic but a prerequisite for country ownership.

USAID's Local Solutions has three overarching goals: to promote country ownership, strengthen the capacity of partner countries, and increase the sustainability of development efforts. Benchmarks for evaluation of the initiative include the assistance given to missions, stakeholder meetings, a draft framework, and evaluations.

Since the Local Solutions initiative was launched in 2010, efforts to improve its effectiveness demonstrate that local capacity strengthening, though complex, is imperative for sustainable country-led development, and must therefore not be ignored. In 2014, the U.S. Government Accountability Office (GAO) released its assessment of the Local Solutions initiative. According to GAO, the purpose of the assessment was two-fold: first, to determine progress toward achieving its fiscal year 2015 target for the principal Local Solutions indicator of channeling 30 percent of USAID funding through local organizations, and second, to determine how USAID is tracking progress in achieving the initiative's goals. The recommendations of the GAO report,[17] which was released in May 2014, highlight important considerations that could inform a broader U.S. government strategy for local capacity development:

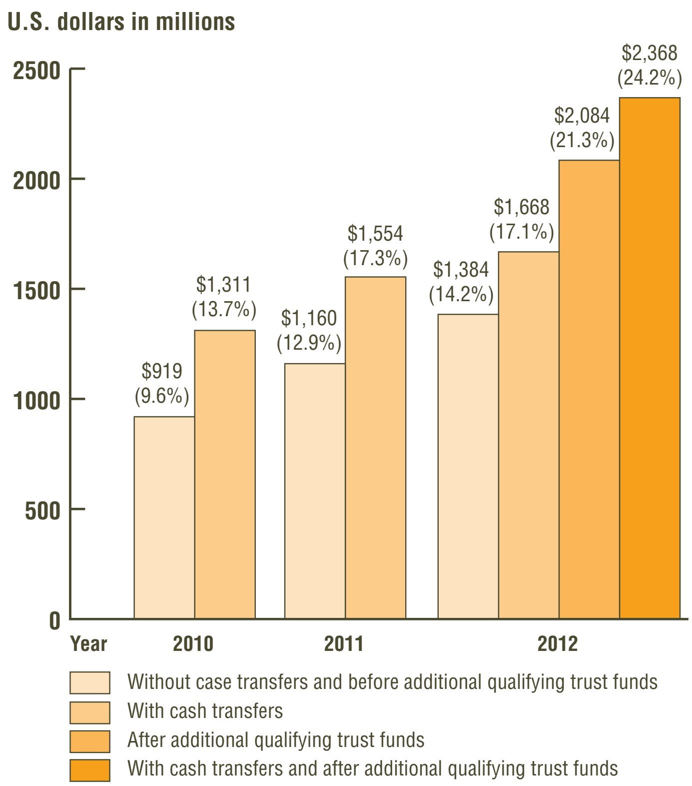
- USAID's principal indicator—to channel 30 percent of its funds though local actors—does not fully capture efforts to build local capacity. In fact, as of April 2014, USAID did not have a means of tracking the impact of such efforts. According to the GAO report,[18] rather than providing information about the status of various Local Solutions activities and emphasizing increases in Local Solutions funding as markers of progress, USAID should establish indicators that would capture crucial elements of local capacity development.
- Clarify in future reporting the types of funding included in the percentage of USAID funds obligated to partner country local organizations.
- Identify additional indicators that better capture progress toward the initiative's goals.
- Provide a means of identifying evaluations of programs that used the Local Solutions approach.

USAID recently released its most recent data on the initiative (May, 2015). Based on the new data, the global average of mission funds programmed through local systems has increased from 9.6% in FY 2010 to 16.9% in FY 2014. According to the Agency, leveling on this metric is due to a decrease in the overall levels of direct obligations in Afghanistan due to elections and ensuing political uncertainty and to the limited absorptive capacity of local governments in Pakistan." Excluding these countries, USAID continues to increase direct obligations from 12.3% in FY13 to 14.8% in FY14. The Agency reports several outcomes of the Local Solutions initiative:

- 6,419 families from 199 communities in Peru giving up illicit coca by planting more than 7,700 hectares of alternative crops, thanks to government-to-government assistance;
- A private pharmaceutical firm in Nepal assuming the risk for developing, proofing, and commercializing a gel that reduces infant mortality by 34%; and,
- Approximately 100% reduction in the cost of procuring health commodities due to the strengthened capacities and internal controls of the Kenya Medical Supplies Agency.

  Source: USAID Forward. Available from http://www.usaid.gov/usaidforward.

USAID Mission Program Funds Obligated to Local Organizations, by Type of Funding Included, with Corresponding Percentages of Total Mission Program Funds, Fiscal Years 2010-2012



Source: GAO analysis of USAID data.

3. Clarify Partners' Responsibilities

The extensive range of actors—from government, to local and international CSOs, to foundations, research institutions, and the private sector—signal that a coordinated multi-stakeholder approach is essential to local capacity development. With negotiations to develop a post-2015 sustainable development agenda to replace the MDGs already well under way, now is the time for the U.S. government and its development partners to articulate a transformative approach to local capacity development that reflects today's rapidly changing development landscape. For example, in 1990 (the base year for the MDGs), more than 90 percent of all poor people lived in low-income countries. Today, more than 70 per cent of all poor people live in middle-income countries.[19] An important global initiative—the Busan Partnership for Effective Development[20] –calls for inclusive development with new roles and responsibilities for development actors in a post-2015 era.

The post-2015 development agenda presents a fundamental shift in development practice—that country ownership is essential for sustainable development. Unlike the MDGs which were largely financed by external partners, financing the post-2015 agenda rests much more responsibility on the shoulders of countries themselves. For many low-income countries and fragile states, this shift calls for re-organizing or building institutions—legal, regulatory and policy reforms; as well as scaling up innovation, science and technology. The global community must therefore support countries' efforts to harness and effectively utilize the full range of both financial and non-financial instruments—private, public, domestic and international—to unlock the potential of governments and citizens to achieve sustainable development goals. This is a tremendous opportunity for the U.S. government to reaffirm its commit to the sharing of knowledge and resources, but also importantly, power, to enable local institutions exercise leadership over and direct investment toward local systems strengthening.

It's impossible to imagine a world without hunger and extreme poverty by 2030, when local systems have zero resilience to external shocks. The Ebola crisis in Liberia, Sierra Leone, and Guinea is a recent example. Although Ebola cases were reported in the United States, the situation looked nothing like those in the three West African countries. The reason is simple: the U.S. health care system can absorb such shocks and minimize their effect. As the Ebola experience has shown, it is smarter to prevent a crisis than to respond after lives have been lost. It has also confirmed two key principles: first, development is only effective when it prioritizes investments in local institutions and systems, not when it bypasses them. Second, achieving sustainable development outcomes depends on the capacity of each country leverage the support of its partners—public, private, business, academic institutions and civil society. It is not effective when external priorities and assistance replace a country's own efforts.

For the U.S. government, the adoption of the SDGs in September 2015 is a key opportunity to position local capacity as a global development priority.

Global Partnership for Social Accountability (GPSA)

An example of a model for building local capacity through multi-stakeholder engagement is the World Bank's Global Partnership for Social Accountability (GPSA) framework. The GPSA is a coalition of donors, governments, and civil society organizations (CSOs) that aims to improve development results by supporting capacity building for enhanced citizen feedback and participation. One component of this is strategic and sustained support to initiatives set up by CSOs to strengthen transparency and accountability for greater social accountability. By bringing governments and CSOs together to address development challenges, GPSA fosters inclusive ownership of the development process—so that both state and non-state actors (as stated below) contribute to setting national development goals.

Source: World Bank: Global Partnership for Social Accountability

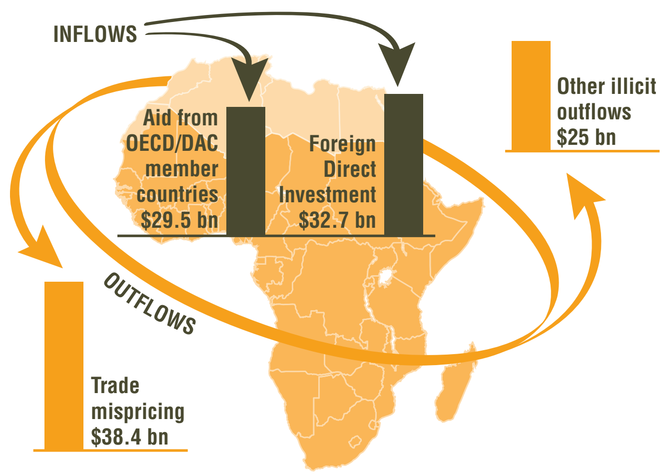
Capacity Strengthening in the Public Sector

The public sector of any country is responsible for basic functions that serve the population—food security and nutrition, education, health care, infrastructure such as roads, climate-smart policies, etc. Investing in public systems is a prerequisite for sustainable development. This is because stronger public systems are able to support and improve their own core functions. They can get better at mobilizing domestic resources, implementing policies for economic growth, managing public expenditures by stemming corruption, and tracking even complex budgets. These are key tasks that promote transparency, accountability, and improved service delivery for residents. (See the text box on this page). In the long run, strong public systems contribute to better, more constructive partnerships with development partners, including the U.S. government. They can attract investment and create job opportunities for citizens.

Strengthening the public sector at the country level could mean investing in local agricultural research institutions, infrastructure for trade and investment, and reliable national data systems. It could also mean ensuring that support from development partners is better aligned with the countries' own development priorities in a more transparent and sustainable manner. Strengthening public sector capacity today has the promise of accelerating progress on development today and tomorrow, because it improves an essential prerequisite for sustainability—governance. The reverse is also true—weak public institutions make a country and its people vulnerable to corruption, tax evasion by local and international stakeholders, and other illicit practices that stifle progress on development. According to the United Nations Economic Commission for Africa (UNECA), governance challenges associated with illicit financial flows reduce the capacity of the public sector in many African countries to provide public services, thus losing opportunities to improve the welfare of their people.[21]

Africa's Illicit Outflows

Africa loses more through illicit outflows than it gets in aid and foreign direct investment



Trade mispricing: Losses associated with misrepresentation of export and import values

Other illicit flows: Funds that are illegally earned, transferred or utilized and include all unrecorded private financial outflows

(All figures are average annual 2006-2010 for Sub-Saharan Africa). Source: OECD (n.d.). OECD Stats Extracts. Global Financial Integrity (2012). Illicit Financial Flows from Developing Countries 2001-2010. World Bank (2013). Global Economic Prospects - January 2013.

USAID turns Dollars to Results in El Salvador

$5.8 million in total USAID support resulted in $350 million increase in annual revenue, and $160 million increase in annual social spending.

With a new government taking office in June 2004, El Salvador faced tremendous challenges as it sought to rehabilitate basic infrastructure and expand access to social services. Tax revenues were among the lowest in Central America and tax evasion was rampant, fueled by public distrust of government. Recognizing the vast need for development, as well as the untapped potential of the country's domestic resources, El Salvador's government began a partnership with USAID to revamp its tax collection system. Over the ensuing five years, El Salvador was able to successfully reform its tax code, upgrade tax collection capacity, launch new audit systems, and adopt new technology to modernize the tax collection authority.

These reforms enabled the country to increase its revenues by $350 million per year. More importantly, these increased revenues now fund the country's development. Since the 1990s, El Salvador has doubled per capita spending on health, education, and social protection while reducing extreme poverty by nearly 25 percent.

Source: USAID. Available from http://www.usaid.gov/sites/default/files/documents/1865/120314_E3%20Brochure_Trifold_L_singles.pdf

In order to support essential local institution-building and enable countries to improve their domestic resource mobilization and use, the U.S. government could, for example, invest in strengthening National Statistics Offices. This would help to expand their ability to collect, analyze, and use data for evidence-based policy formulation.

The Role of Civil Society and the Private Sector

"Civil society in 2014 is a vibrant, diverse, and evolving space, asserting its value as facilitators, donors, and innovators, as well as service providers and advocates."[22] In addition to the facets of civil society just named, technology as the backdrop to civil society's participation in development is dramatically shifting how citizens engage with their governments. In 2011, President Obama in partnership with seven other heads of state launched the Open Government

Partnership (OGP) at the UN General Assembly.[23] According to the White House, U.S. efforts with the OGP are stipulated in two-yearly Open Government National Action Plans with specific and measurable open government commitments. These efforts align with the goal to strengthen local and capacity, namely: improving public services; increasing public integrity; more effectively managing public resources; creating safer communities; and increasing corporate accountability.[24]

OGP "provides an international platform for domestic reformers committed to making their governments more open, accountable, and responsive to citizens. To date, OGP has grown from 8 countries to 64 participating countries and hundreds of CSOs."[25]

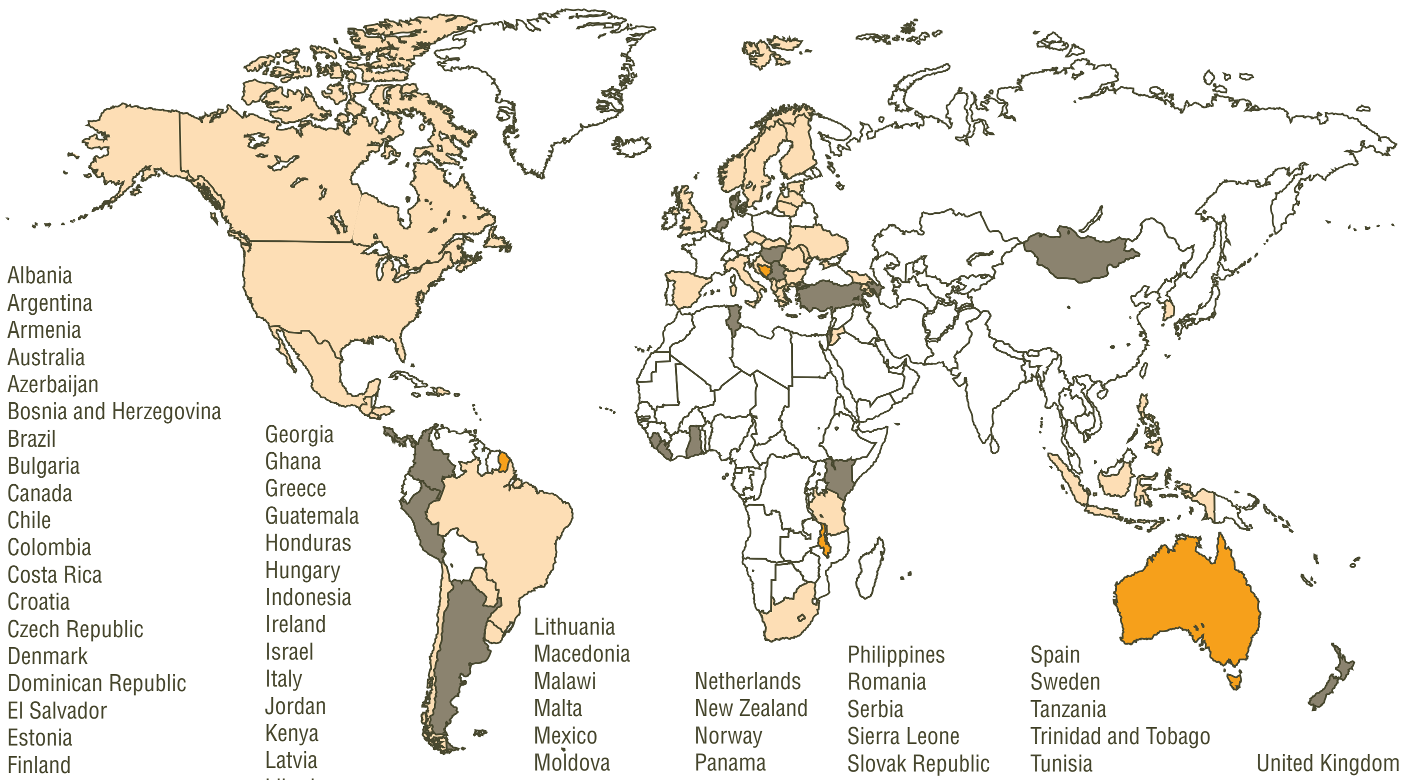
Through initiatives such as the OGP, opportunities for civil society participation around the budget cycle are growing as more governments open up their budget data. The use of technology such as OGP helps to expand access and use of public data, which should in turn help improves accountability of governments to their citizens. Improved service delivery, for example, depends on the ability of citizens to access budget data and to demand improved services from the government. Similarly, open data allows improved resource allocation by governments. Strengthening the capacity of citizens to participate in the budget process therefore, not only allows citizens to voice their priorities in resource allocation, it also helps enables them to monitor public expenditure as well as hold governments accountable for the quality of services provided.[26]

It is noteworthy however, that increased access to budget data does not automatically lead to broad -based participation and development gains. In this regard, the USG capacity development policy should prioritize strengthening the capacity of marginalized groups—especially youth and women—in advocacy, data collection and analysis, as well as scale up innovation and knowledge sharing platforms that connect citizens with their governments. Emphasis should be on defining and measuring CD success from the local communities' perspectives. The use of Community Score Cards[27], (CSC) for example, would add value to USG local capacity strengthening efforts. "Because the CSC process uses the "community" as its unit of analysis, and is focused on monitoring at the local level, it can facilitate the monitoring and performance evaluation of services, projects and even government administrative units (like district assemblies) by the community themselves."[28]

4. Context Matters: No One Size Fits All

Development assistance is effective when it helps to innovate, adapt, and maintain capacity over time,[29] even in fragile environments. Yet because donors often have a very

OGP Participating Countries as of July 1, 2015



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Bosnia and Herzegovina
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Bulgaria
Canada
Chile
Colombia
Costa Rica
Croatia
Czech Republic
Denmark
Dominican Republic
El Salvador
Estonia
Finland
France
Georgia
Ghana
Greece
Guatemala
Honduras
Hungary
Indonesia
Ireland
Israel
Italy
Jordan
Kenya
Latvia
Liberia
Lithuania
Macedonia
Malawi
Malta
Mexico
Moldova
Mongolia
Montenegro
Netherlands
New Zealand
Norway
Panama
Paraguay
Peru
Philippines
Romania
Serbia
Sierra Leone
Slovak Republic
South Africa
South Korea
Spain
Sweden
Tanzania
Trinidad and Tobago
Tunisia
Turkey
Ukraine
United Kingdom
United States
Uruguay

Source: Open Government Partnership

narrow view of capacity development, they argue that technical assistance is a better option when a country's own institutional structures are weak. Consequently, the assistance comes complete with its own technical personnel who work parallel to national structures.[30] The weakness of institutions in fragile states notwithstanding, the development community should commit to meaningful interventions that can strengthen local capacity. This requires understanding the context and engaging in meaningful activities and dialogue with affected communities. Over time, strengthened local systems will be able to nurture their own capacity to develop new policies and programs to make progress toward the development goals they themselves identify as priorities.

According to the Overseas Development Institute (ODI), "context matters for development policy in several ways: it shapes the likelihood of change, such as a policy reform, taking place; the positions and perspectives of organizations with an interest in the policy reform; and how effective or appropriate different courses of action will be."[31] Different development contexts therefore call for differentiated development interventions.

A recent report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development,* underscores this point: "developing countries are much more diverse than when the MDGs were agreed upon in 2000. They include large emerging economies as well as countries struggling to tackle high levels of hunger and malnutrition, with severe capacity constraints. Developing country links in trade, investment, and finance are also growing fast.[32] There is real opportunity for the United States to facilitate sharing of best practices on policy reform and to foster meaningful citizen engagement. "Developing countries, including ones with major pockets of poverty, are cooperating among themselves, and jointly with developed countries and international institutions, in South-South and triangular partnerships. These could be an even stronger force with development of a repository of good practices, networks of knowledge exchange, and more regional cooperation."[33]

On the other hand, fragile and/or conflict-affected states present very specific challenges to efforts to develop local capacity. The OECD defines fragile states as "those failing to provide basic services to poor people because they are unwilling or unable to do so." The problems that a fragile or conflict-affected state confronts may include limited and weak institutional mechanisms, tension and violence, insecurity, and an overall lack of human capacity to help advance the country's goals. Today, the need for strong, more effective local institutions is even greater than it was as recently as 2005. When the Paris Declaration was adopted that year, more than half of the world's poor people lived in countries that were low-income but stable. By 2010, that figure had dropped to just 10 percent. Today, the majority of the world's poor people live in middle-income and/or fragile states.[34]

It is clear that in order to *end extreme poverty everywhere* as stated in the proposed SDGs, it can no longer be "business as usual." Efforts must be coordinated and targeted to reach the most difficult to reach populations, including those in fragile states. Yet progress is possible even in difficult circumstances. Based on World Bank analysis, eight fragile and conflict-affected states—including Guinea, Nepal, Bosnia and Herzegovina, and Timor-Leste—have already met the goal of halving extreme poverty—the proportion of people living on less than $1.25 a day.[35] In April 2007, donors from OECD countries committed to *10 Principles for Good International Engagement in Fragile States and Situations (See Text box below).*[36] The principles go beyond development cooperation to consider other aspects of international support in these settings, including peace-building, state-building, security and peace-keeping, and whole-of-government approaches.

> "We are at a dangerous moment in these three West African countries, all fragile states that have had strong economic growth in recent years after decades of wars and poor governance. It would be scandalous to let this crisis escalate further when we have the knowledge, tools, and resources to stop it. Tens of thousands of lives, the future of the region, and hard-won economic and health gains for millions hang in the balance."
>
> Jim Yong Kim & Paul Farmer
> *World Bank Group President & Harvard University Professor, The Washington Post, August 31, 2014*

A good example of a strategy that can work in fragile states is a community-driven approach, such as working through a local school or clinic. Many such local institutions have worked successfully for many years, often able to operate in areas where external aid agencies may be received with hostility or suspicion. During the 2011 famine in Somalia, for example, local women's groups were critical. They managed to reach areas with ongoing conflict to provide food to starving communities. The U.S. government could consider developing guidelines to assist USAID missions and various agencies in determining when direct assistance for local organizations and institutions would be preferable—from both political and technical perspectives—to assistance for international partners.[37]

Supporting fragile states in developing strong enough institutional frameworks to no longer be considered fragile is a long-term job that requires patience. It takes years of investment. It also calls for effective coordination among development partners and agencies, both global and within the national government of the fragile state. This coopera-

10 Principles for Good International Engagement in Fragile States and Situations

1. Take context as the starting point
2. Ensure all activities do no harm
3. Focus on state building as the central objective
4. Prioritize prevention
5. Recognize the links between political, security, and development objectives
6. Promote non-discrimination as a basis for inclusive and stable societies
7. Align with local priorities in different ways and in different contexts
8. Agree on practical coordination mechanisms among international actors
9. Act fast … but stay engaged long enough to give success a chance
10. Avoid pockets of exclusion ("aid orphans")

Source: OECD

tion must be participatory and promote the constructive involvement of all stakeholders—civil society, the business community, marginalized groups such as women and youth. Donors need a willingness to make firm long-term commitments. It is not enough to count dollars or personnel or other "inputs"—there must be a shift toward mutual accountability for positive outcomes.

5. Capacity Development Takes Time

The long-term benefits of U.S. development assistance depend on how much integrity and effectiveness partner countries can bring to the task of managing resources. Bolstering partner country systems will enable the U.S. government to complement the contributions of other partners and the expertise. In time, these stronger systems will reduce the need for U.S. development assistance.

The 2005 Paris Declaration on Aid Effectiveness identified capacity constraints as one of the central barriers to achieving the MDGs. According to OECD, "billions of dollars have been spent yearly on technical cooperation, the bulk of which is ostensibly aimed at capacity development."[38] Despite all this funding, however, the Development Assistance Committee (DAC) of the OECD reports that "capacity development has been one of the least responsive targets of donor assistance" and "public sector management and institutions—key indicators of public capacity—have lagged behind all other MDG benchmarks.[39]

It is clear from these findings that neither spending money on technical cooperation, nor training individuals and groups alone, leads automatically to increased capacity and more progress toward sustainable development. What happens after skills are developed is critical: the skills must be promptly put to use in organizations or institutions that both allow for continued change and adaptation, and provide incentives for actual changes and adaptations. The individuals and groups need national or local institutions that provide ongoing support and the impetus for continued change. These scenarios are the most successful instances of capacity development, and U.S. programs should link to such institutions.

Building local capacity takes time, but often development assistance planning is focused on short-term goals. In the United States, there are federal requirements that are built into USAID's funding structure and difficult to change.[40] One potential strategy is to identify how the goals and outcomes of programs to build local capacity can be better integrated and elevated within the larger development agenda. This way, there are short-term objectives with outcomes that can be communicated, but they are built into a longer-term strategy. Another avenue is for the administration and Congress to work together to review the time frames and priorities in the context of what the U.S. government needs to do to support local capacity development. Members of Congress will thus have a mechanism to discuss what sort of oversight is needed to ensure that programs are effective.[41]

Conclusion

This year, 2015, is a critical moment for the future of development. At the sunset of the Millennium Development Goal (MDG) era, the world is looking forward to the more ambitious, universal SDGs. Unlike the MDGs, which focused on specific enumerated goals, the proposed post-2015 framework features a comprehensive "How to get there" approach, with strong emphasis on the Means of Implementation, Technology, and Capacity Building. It emphasizes the critical role of collective capacity—individuals, communities, and governments—"to access resources and to contribute in their own development." Collective capacity is also vital to the ability of government institutions to respond to the needs and interests of those who are the poorest and most marginalized."[42] The Means of Implementation of the post-2015 agenda will require mobilizing resources through instruments such as domestic revenues, trade, investments, remittances, as well as through partnerships among all actors.

This is an unprecedented moment for the United States bolster its commitment to end hunger and extreme poverty by 2030. The United States should enthusiastically support and elevate local capacity on the global development agenda. It should also ensure that local capacity development remains a core objective of U.S. development assistance, so that its engagement with local partners genuinely unlocks their potential toward the successful pursuit of country-led development outcomes in the post-2015 era.

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We acknowledge with thanks input from Diana Ohlbaum, George Ingram and others.

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INSTITUTE

President, David Beckmann | Director, Asma Lateef

425 3rd Street SW, Suite 1200, Washington, DC 20024
Tel 202.639.9400 Fax 202.639.9401 institute@bread.org www.bread.org/Institute

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