

Supporting Local Ownership & Building National Capacity:

Applying a flexible and country-based approach to aid instruments



Srey, 12, at school in Phnom Penh, Cambodia Karin Beate Nosterud / Save the Children

The traditional U.S. government aid model, relying on international contractors and NGOs for the vast majority of implementation, can achieve quick results and reduce the donor's risk of financial and program mismanagement. However, making the government and civil society in partner countries directly responsible for managing resources has greater potential for enhancing country ownership, strengthening institutional capacity, and sustaining program activities. A better mix of aid models is needed. The U.S. government should:

- Adopt a flexible country-by-country approach to development practices;
- Empower its field missions with greater authority and capacity to use the range of aid mechanisms in a graduated fashion;
- Increase its efforts to build the capacity and accountability of host nation and society institutions.

Building national capacity and consolidating local ownership

There is no “silver bullet” aid mechanism able to solve all the development challenges in a partner country. But providing aid in a manner that encourages greater local ownership of programs and builds capacity of local institutions is clearly fundamental.

Country ownership and host country capacity are connected: the human, technical and institutional capacities of partner governments and civil society must be strengthened so these organizations can better design, implement and monitor programs funded by their own and external funds.

There are many different mechanisms through which aid can be provided, some allowing for more ownership and more capacity building, others allowing perhaps for more immediate provision of goods and services with less risk to donors. Aid mechanisms run the gamut of projects implemented by

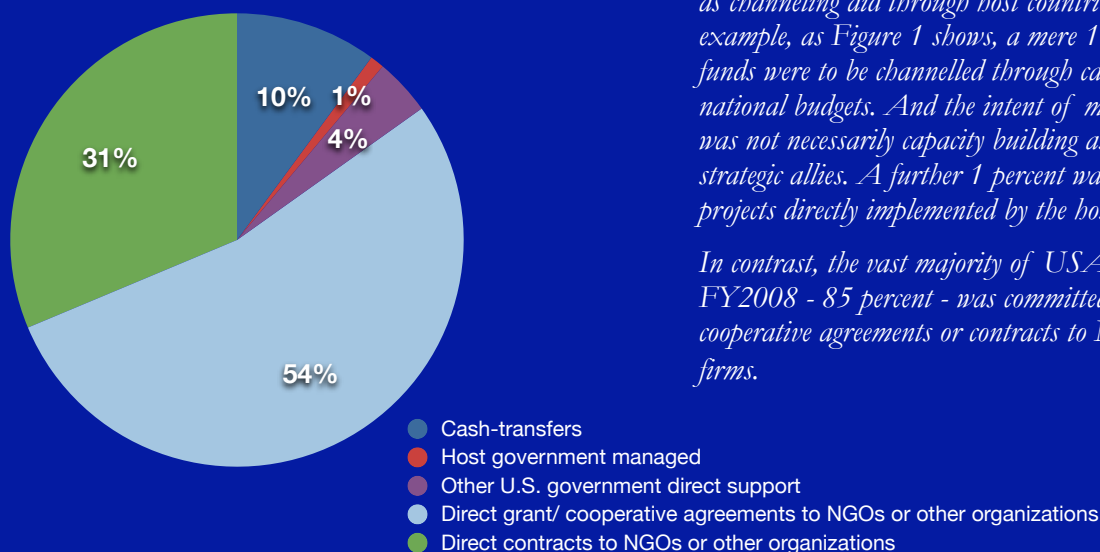
“What we really need to do here is a lot less sexy than setting up a few clinics. What we need to do is a lot longer-term and the U.S. government needs the courage to invest in activities that may not yield quick and visible results”

- A donor agency official in Bangladesh

international contractors providing services, geared to donor indicators and with minimal engagement with civil society or government, to NGOs building the capacity of local ministry officials, to provision of funds to the government itself. See Figure 2 *A continuum of aid modalities for host government ownership.*

The key is recognizing the different needs, challenges and opportunities facing each partner country. U.S. government agencies engaged in development must design and implement their aid programs based upon the specific circumstances, capacities and plans of each country or region.

Figure 1: Funding under USAID Operational Plans by aid mechanism, FY2008²



The United States lags behind other donors in its willingness to use all the aid mechanisms that would build capacity, such as channeling aid through host countries' systems. For example, as Figure 1 shows, a mere 10 percent of USAID's funds were to be channelled through cash transfers to support national budgets. And the intent of much of those transfers was not necessarily capacity building as it went mostly to strategic allies. A further 1 percent was passed through projects directly implemented by the host government.

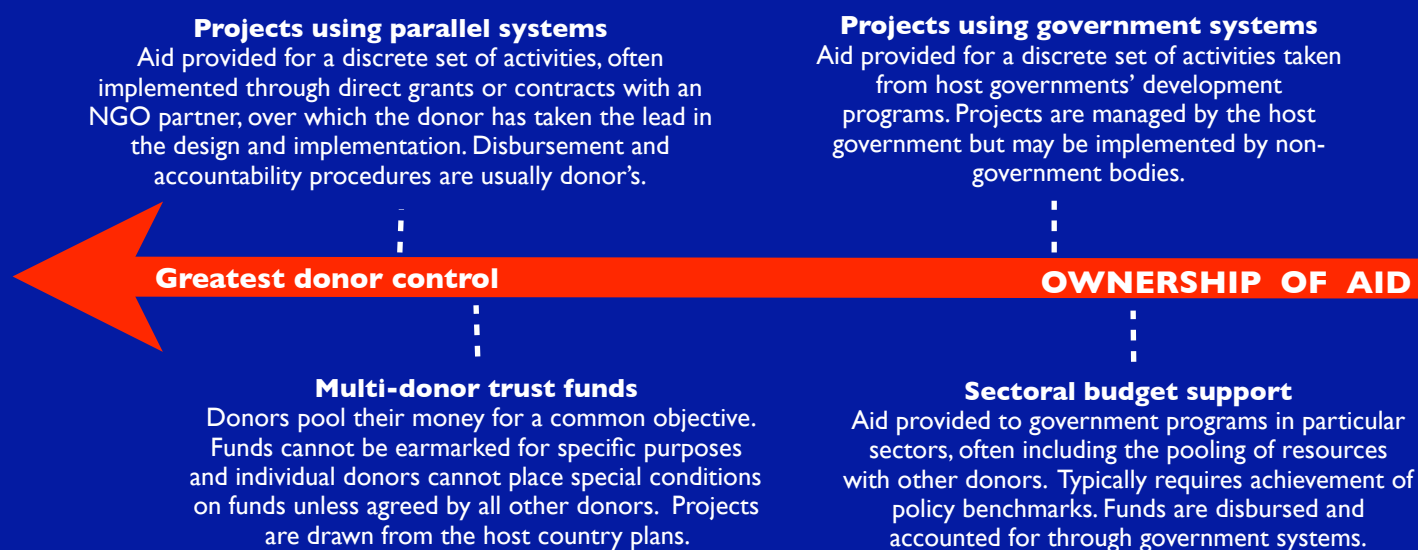
In contrast, the vast majority of USAID's budget in FY2008 - 85 percent - was committed through direct grants/cooperative agreements or contracts to NGOs or contracting firms.

Balancing county ownership, risk and results

The United States should be flexible and pragmatic in how it implements its assistance programs – a “one size fits all” approach is not effective. To shift to a country-by-country approach that meets local needs and strengthens host country institutions, the U.S. government must address a number of barriers. These include:

- ▶ **Decentralize the strategic planning process and provide greater authority for country-level input:** U.S. country and regional level staff, rather than those in Washington, should design and approve programs within overall budgets allocated by Washington.
 - ▶ **Institutionalize training on how and when to use diverse range of implementation instruments:** Lack of knowledge and discouraging messaging from Washington undermine consideration of a wide range of instruments. To inform their choice of aid instrument, U.S. government agencies should place more weight on a wider range of sound development criteria, including a realistic and objective assessment of the quality of host institutions’ policies, capacities to implement activities, and abilities to adhere to standards of financial management. Capacity will vary from country to country and institution to institution, and should influence the choice of which instruments to use to achieve development objectives.
 - ▶ **Increase USAID’s staff numbers to allow management of more labor intensive aid instruments:** As USAID’s staff numbers have declined, the budget it is responsible for managing has increased.³ As Figure 1 shows, outsourcing development activities to third parties, like NGOs and contracting firms, is USAID’s default model for implementing activities in most of its programs. Lack of staff to design and supervise programs has forced the use of mega-projects to reduce management units. More qualified and experienced staff would allow USAID to do more with host country institutions and to manage a more diverse, responsive portfolio.
- “If effectiveness is measured by how much the poor receive, projects are easy to measure. They go to specific activities, areas and population groups. But if effectiveness is measured by the overall capacity of the government to do things on its own, then you need to look at systems and focus on strengthening those.”
- A local Ethiopian NGO
- ▶ **Limit the array of presidential initiatives, earmarks and congressional directives placed on funds:** Apart from Millennium Challenge Corporation, over 80 percent of foreign operations appropriations funds are directed before they hit the country level, severely constraining country-specific programming. Save the Children’s research found that in FY2008 the USAID mission in Ethiopia estimated that about 98 percent of its almost \$900 million budget was predetermined by Washington.⁴
 - ▶ **Change the culture of U.S. government to reward longer-term capacity building over quick but unsustainable results:** The pressure to show quick and tangible results creates incentives to choose aid instruments that minimize risk and maximize service delivery.
 - ▶ **Lift all legislative prohibitions that prevent some accounts from being used for sectoral support:** For example, funds from USAID’s Global Health and Child Survival account legally cannot be channelled through sector budget support mechanisms. In FY2008, 32 percent of the total bilateral economic assistance budget could not be programed through sector budget support mechanisms, even in countries where this arrangement might be the most appropriate tool for sustainable impact.⁵

Figure 2: Continuum of aid modalities for host government ownership



- ▶ **Invest in host government capacities to reduce risk and enable greater use of national public financial management (PFM) systems:** The United States channels very little of its resources through host government PFM and procurement systems (see Figure 3).⁶ To begin to address this, US agencies engaged in development should invest more deeply in the strengthening of partner countries' PFM systems and other capacity building initiatives, particularly those related to building a well performing civil service. U.S. government staff should be better trained to identify opportunities to use country systems, especially where risk and bureaucratic barriers are low.
- ▶ **Invest in local NGO capacities:** Local NGOs are a key actor in holding host governments accountable for the delivering meaningful results, and should increasingly be an important link between government and community through communications and provision of services. International NGOs are perhaps uniquely well placed to build the capacity of local NGOs to develop direct relationships with donor and host governments.

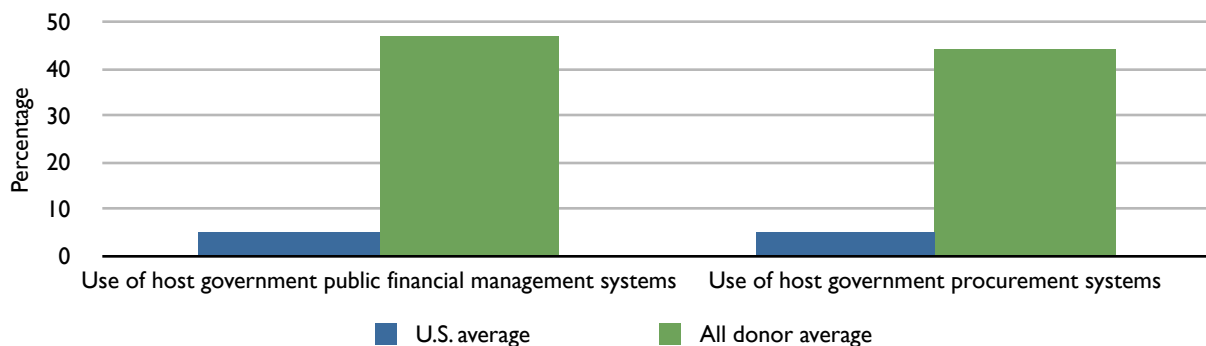
“With the amount of funds the U.S. is providing, if they could say that 15 percent or even 10 percent could be put into the pool, their influence on the government’s health policy and those other mechanisms would be greatly increased.”

- A donor agency official in Ethiopia

“As long as you refuse to work through government you will have results but those results will not be sustainable. You will not have a single government official that has proper ownership of those projects.”

- A donor agency official in Bangladesh

Figure 3: United States and all donor aid use of host government public financial management systems and procurement systems, 2007⁷



General budget support

Transfer of un-earmarked resources from a donor to a partner government’s treasury. Funds are managed and spent according to the recipient’s national plans and budgetary systems. Conditions typically include agreement to overall budget priorities. Includes cash-transfers.

RESOURCES

Greatest country control

Aid-financed debt relief

Funds provided to reduce partner government’s debt obligations, leaving the government free to decide how to allocate their own freed up resources.

There are many different aid modalities that the United States could use to program its aid.

The donor or implementing-agent controlled project approaches on the left of the continuum can provide tighter standards of financial accountability, more publicity, and often quicker outputs than using those further along the scale towards the use of host government systems. But in the medium and long-term, the risks of working through local systems and institutions must be balanced with the sustainability that strong local ownership can bring to development programs.

Regardless of the exact choice of aid modality, U.S. government agencies can deepen country ownership by sticking to a few principles of good donorship. These include aligning activities with host government plans, making funding predictable, and coordinating with other development partners.

Different approaches to managing U.S. development resources

Save the Children's research found a variety of aid mechanisms being used by the U.S. government, highlighting that the sought-for flexibility in managing aid is not simply a matter of changing laws and regulations, but also culture and political will:

- ▶ The United States rarely pools funds but does participate in sector-wide approaches (SWAp). In **Bangladesh**, **Ethiopia** and **Malawi**, the United States participates in SWAps to ensure alignment with government priorities.
- ▶ In **Liberia**, USAID teamed up with the U.K's Department for International Development (DFID), receiving a \$1.4 million contribution from DFID towards one of its community infrastructure projects.
- ▶ In April 2009, the U.S. government pledged \$20 million to help **Haiti** service its debt obligations and thus freed up Haitian government resources for government priorities.
- ▶ The U.S. government provides budget support to strategic allies like Pakistan, Jordan and Egypt where it balances fiduciary risks against political gains.

Children at work on their lessons at the Ecole la Oainte Famille primary



- ▶ **Increase coordination with other donors:** Formal and informal donor coordination mechanisms exist ranging from Joint Assistance Strategies, multi-donor trust funds, cluster groups, sector pooled funds, sharing program and risk-assessments, establishing common policies, minimum standards and requirements for host country systems. Active participation in such mechanisms reduces the burden on host governments.

Increasing engagement by the USG in these mechanisms will require both a change of attitude and increased delegated authority to field staff.

- ▶ **Strengthen accountability:** Increased emphasis on, and resources for, monitoring and evaluation (M&E) within the USG, its implementing partners and within local NGOs would highlight the benefits of long term capacity building, and address concerns about accountability.

References

1 For more how to increase U.S. government's support to NGOs in developing countries, see Save the Children, *Supporting Local Ownership & Building National Capacity: Working with Local Non-governmental Organizations*.

2 Data provided by USAID to Save the Children.

3 Between 1975 and 2007, the number of employees at USAID fell from 4,300 to 2,417, the budget USAID was responsible for rose from \$6.5 billion in 1992 to \$13 billion in 2007. Staff and budget numbers from the Modernizing Foreign Assistance Network, *Memo to Obama-Biden Transition Project: US AID Staffing*, http://library.ias.edu/hs/sssthem/20081212_aid3.pdf. Budget numbers from USAID, *Congressional Presentation FY1994*, http://pdf.usaid.gov/pdf_docs/PNABP993.pdf.

4 Data provided by USAID/Ethiopia to Save the Children.

5 Data from Department of State, *FY2010 Congressional Budget Justification for Foreign Operations*, <http://www.usaid.gov/policy/budget/cbj2010/>.

Prohibition is found in U.S. Congress, *Legislation on Foreign Relations Through 2008*, March 2010, Volume I-A, p. 35, <http://hcf.house.gov/111/51120.pdf>

6 Public financial management (PFM) encompasses the entire country's budget process, including budgeting, revenue management, reporting and auditing.

7 Data from OECD, *2008 Survey on Monitoring the Paris Declaration*.

About the research

With support from the Hewlett Foundation, Save the Children is researching and advocating for more effective U.S. development engagement. The research contained in this briefing paper draws upon information gathered during a series of research trips to countries in Africa, Asia, the Middle East and Latin America, and research interviews with key stakeholders in Washington, DC.

For more information on working with civil society in developing nations, see our paper: *Supporting Local Ownership & Building National Capacity: Working with Local Non-governmental Organizations*

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