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The Local Solutions Initiative in Practice

A CASE STUDY OF USAID/PHILIPPINES

Save the Children invests in childhood – every day, in times of crisis and for our future. In the United States and around the world, we give children a healthy start, the opportunity to learn and protection from harm.

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Executive Summary

“The purpose of foreign assistance must be creating the conditions where it is no longer needed.”

President Barack Obama; Presidential Policy Directive, US Global Development Policy, September 2010

USAID’s Shift toward Country Ownership and Local Solutions

In 2010, the United States Agency for International Development (USAID) launched a package of reforms known as USAID Forward, aimed at transforming how the agency operates. A key part of this effort, the Local Solutions initiative was inaugurated in response to global calls to direct a larger percentage of support and financing to local institutions. The central goals of Local Solutions are to promote country ownership of development priorities, to build local capacity and to sustain development results.¹

Local Solutions represents an important and welcome new focus for USAID, but the initiative still functions within an overall business model that prioritizes donor-country ideas and interests. Save the Children believes strongly in the principle of country-ownership as foundational to sustainable and lasting development in countries around the world. We share the concerns of many in the development community that the Local Solutions initiative, while receiving vocal support from high-level agency leadership, has been inconsistently and incompletely implemented across the agency’s missions around the world. In order to assess the impact of Local Solutions and determine how effectively USAID is partnering with local organizations, **Save the Children conducted in-depth research to see how well the initiative is being implemented by the USAID Mission in the Philippines.**

Report Findings

This report builds on Save the Children’s 2014 review of the Local Solutions initiative across six countries providing a deeper analysis of Local Solutions implementation in a single country. To that end, this report aims to ascertain USAID/Philippines’ efforts to implement the three pillars of the Local Solutions initiative – local ownership, long-term sustainability, and building local capacity.

USAID/Philippines mission leadership recognizes the inherent value of working with Filipino partners. The mission’s efforts to direct a high percentage of its funds to local organizations (40 percent, surpassing the overall agency goal of 30 percent) speaks to the strength of this commitment in the context of USAID’s work in the Philippines. This commitment to local ownership is also expressed through a close working relationship between USAID and the Philippines government at the sector level, including the Departments of Health, Education, Interior and Civil Defense. USAID-funded projects in basic education and economic growth focused on country plans and priorities. Projects used shared outcome indicators, inclusive planning and management structures involving representatives of the Philippine government and local partners.

Funding Filipino organizations directly and strengthening country systems are major components of the mission’s efforts to enhance long-term sustainability through Local Solutions. By reducing the size of some of its grants, the mission has increased opportunities for local

organizations to compete with international organizations for USAID projects. The mission has also organized a series of limited competition bids for Filipino organizations to leverage local expertise, build capacity, and provide recipients with a context-appropriate introduction to working with USAID.

Broadening the range of local partnerships it engages in, including private sector partners and local foundations, has enabled USAID/Philippines to function as a facilitator and catalyst for joint action among local actors, leveraging a wide range of stakeholders in support of shared development priorities.

USAID Philippines is also building a pipeline of future partners through a combination of organizational capacity strengthening projects and sub-granting opportunities. These efforts have proved to be self-reinforcing. Among other results, a 3-year capacity building project to strengthen the organizational effectiveness of 120 local Civil Society Organizations (CSOs) produced 21 applicants to a USAID-developed grant-making fund administered by a local foundation. This demonstrates the productive linkages that can be built between USAID-funded projects and intentional efforts to cultivate a new set of local partners.



Credit: Jonathan Hyams/Save the Children.

Recommendations

For USAID/Washington:

Commit to institutionalizing Local Solutions agency-wide. Ensure that country ownership, capacity-building and sustainability define how USAID designs and implements its programs across the board. A leadership and staff level commitment that is reflected in annual job performance evaluations, for example, would be a good step toward ensuring effective implementation of USAID's Local Solutions initiative.

Ensure commitment and leadership from mission directors. In the case of the Philippines, Mission Director Gloria Steele advanced the Local Solutions initiative by recognizing the value in working with and through local institutions. Her commitment to using 40 percent of the USAID/Philippines' budget to fund local institutions demonstrates that commitment. Future mission directors should be chosen based not only on their development and management expertise, but also by their commitment to and experience in embracing a new way of partnering and supporting country-led priorities and work.

Create new indicators for local solutions. Implement new, measureable, agency-wide Local Solutions indicators beginning in fiscal year 2016. As mentioned in our 2014 report, Save the Children recommends nine additional indicators (see Annex 3) to gauge how USAID is strengthening partner-country capacity, promoting country ownership and increasing sustainability. Many of these indicators have broad support, as demonstrated by recent recommendations along these lines from the Modernizing Foreign Assistance Network, a coalition of development-focused organizations.²⁵ USAID/Philippines is working to support country ownership, sustainability and capacity-strengthening in a variety of ways that cannot be captured solely by the amount of mission funds that go to local institutions. Additional indicators would shed light on what works and what doesn't, making the agency more effective.

Require a comprehensive sustainability plan for all project proposals. Sustainability should be an integral piece of project design and a heavily weighted criterion of proposal evaluations. What this looks like may vary greatly depending on the context. As illustrated in this report, USAID/Philippines engaged a local for-profit consultant to work with the government and improve the business environment in three Philippine cities. Many of the measures taken to improve the business environment were policy changes implemented through local city reforms. This is a prime example of working through permanent country systems to create sustainable change – in this case making it easier for Filipinos to start and grow businesses.

Align budgets with country priorities. USAID/Washington must go beyond policy statements and work with missions to better align USAID budgets to country priorities identified in the Country Development Cooperation Strategy (CDCS). It must also provide flexibility to missions, enabling them to support and strengthen systems and organizations, such as local NGOs. Unfortunately, the USAID/Philippines budget exemplifies the challenge many missions face. Due to Congressional earmarks and priorities set in Washington, DC, from FY 2011 – 14, the top three development priorities identified in the CDCS received 23.4% (economic development), 12.3% (the environment) and 1.8% (peace and security) of the overall mission budget – collectively well under half of the mission's annual funds (see table in Annex 2). As shown in the Annex, these percentages were not significantly impacted by the influx of emergency aid after typhoon Haiyan.

For USAID missions:

As appropriate, align the mission's strategy with the country's strategy. Ensure appropriate alignment between the mission's CDCS, budget and projects with locally defined development priorities. When appropriate, project indicators should be agreed upon and shared by USAID and the

host country to foster greater alignment of priorities at all levels of development. The joint planning process should include extensive consultation and documented adoption of civil society-identified development priorities.

Develop mission-level Local Solutions strategies. Develop context-specific Local Solutions strategies that can be monitored and periodically assessed. USAID/Philippines' strategy, whether formal or informal, used multiple tools, such as context-specific funding mechanisms, project co-financing with the government, support for capacity-strengthening of local organizations, and funding for local organizations through a grant-making fund. Other missions should work to take a long-term, multi-pronged approach to support locally owned development.

When possible, leverage domestic resources and support public-private partnerships. By leveraging domestic resources through co-financing and public-private partnerships, USAID can often multiply the effects of its investments. For example, co-financed projects between USAID/Philippines, the Philippines-based Zuellig Family Foundation and the Department of Health increased USAID's programmatic reach and local ownership of development programs.

Build relationships with and learn about local institutions. Proactively reach out to local institutions and identify and support worthy local initiatives. USAID/Philippines supported projects that exposed them to over 100 new local organizations with expertise in a wide variety of development-related issues. The mission now has a better understanding of NGOs from across the country, including access to a wide range of local sector expertise.



Introduction

In recent years, the international development community has begun to reassess how foreign assistance is distributed and administered in countries around the world. While gains have been made since the mid-20th century through donor-driven approaches and strategies, the efficiency and efficacy of those approaches for poverty reduction and development have been called into question. This re-evaluation was reflected in High-Level Forums on Aid Effectiveness in Paris, Accra and Busan over the last decade, recognizing the importance of country-led development to ensure better results through greater ownership and sustainability.²

In 2010, the United States Agency for International Development (USAID) launched a package of reforms known as USAID Forward. The reforms focused on three main areas: 1) deliver results on a meaningful scale through a strengthened USAID, 2) promote sustainable development through high-impact partnerships and local solutions, and 3) identify and scale up innovative, breakthrough solutions to intractable development challenges.³

As part of the USAID Forward reforms, the Local Solutions initiative was launched in response to global calls to increase direct support and financing to local institutions. The three goals of the initiative are to promote country ownership, strengthen local capacity and increase sustainability.⁴

While this was a welcome and important step for USAID, the initiative is still one of many that must fit within the agency's existing business model – a model developed out of donor-driven ideas and interests. In fact, a recently released report by the Office of Inspector General highlighted existing budget allocations often made up of Congressional earmarks and Presidential Initiatives as reasons for poor alignment to country priorities.⁵

While policies and political will have pushed USAID along the continuum to greater country ownership, sustainability and capacity-building in its programming, the goals of Local Solutions need greater financial support and commitment from USAID leadership; these goals must also be institutionalized agency-wide. The question then becomes: How can the agency go beyond a multi-year initiative and truly adopt a new way of “doing business”?

In January 2015, Save the Children researchers traveled to the Philippines to learn how USAID's Local Solutions was being implemented. The Philippines was chosen because it is a country where Local Solutions' targets are expected to be exceeded by USAID. The focus was not to see project results, but to learn how the agency is working with local institutions to achieve development outcomes. Essentially, researchers wanted to examine how USAID/Philippines was attempting to change the way it does business by putting greater emphasis on using foreign assistance as a catalyst for development.

Report Goals

Save the Children believes strongly in the principle of country-ownership as foundational to achieving development in countries around the world. We want to see this transition to a new development model succeed. We think donors and implementers, like ourselves, should work through country systems and align development work with country priorities. Aid is most effective when it is channeled through country systems and aligned with country priorities as appropriate given the country context. We also know that policy changes announced at global forums or at an agency-wide level do not always translate into changes in practice in developing countries.

To assess the impact of Local Solutions on USAID's operational practices, we launched this research project and report, examining how the initiative was being implemented by the USAID mission in the Philippines. The Philippines was selected for in-depth research due to its ranking as one of the top five USAID missions allocating funds to local non-profits in 2012, as reflected in a U.S. Government Accountability Office report assessing Local Solutions. However, This report represents an effort to examine how Local Solutions is affecting practice on the ground, beyond the amount of funding channeled to local organizations.

We compiled this analysis to provide USAID/Washington with evidence of positive outcomes of Local Solutions that are not being captured in the agency's current indicator.⁶ Our aim is that this analysis will strengthen USAID's long-term approach to promoting ownership in developing countries as measured by alignment of USAID's work with country priorities, channeling funds through existing country systems and strengthening the capacity of local institutions.

We also hope that other missions will adapt some of USAID/Philippines' approaches in their own countries – whether it be through priority alignment or context-specific funding mechanisms for local organizations.

This report continues the analysis of the Local Solutions initiative begun in our 2014 report, *Tracking USAID's Efforts on the Local Solutions initiative*. That report examined 55 procurements issued by USAID to assess how the initiative was being incorporated into project design in six high-investment countries.⁷

These countries, which included the Philippines, were also selected for their geographical diversity. The report was based on desk research and examined the extent to which USAID procurement: 1) supported locally identified development priorities, 2) included local participation in project implementation, 3) provided local access to USAID funding, and 4) created accountability to local stakeholders. That report found that the Local Solutions initiative was, for the most part, being effectively integrated into many of missions' solicitations into projects in six high-investment countries examined.

The 2014 report recommended that USAID conduct a more comprehensive assessment of its efforts to document early successes and challenges in implementing Local Solutions. It also recommended creating additional evaluation indicators to assess the initiative beyond the one indicator it uses – the amount of mission funds allocated to local organizations. For this initiative to succeed – and in accordance with USAID Forward's goals – it will need to be comprehensively assessed by both external and internal evaluators.

Research Methodology

To that end, Save the Children chose one of the six countries from the previous report for a more in-depth, granular analysis of the implementation of the Local Solutions initiative. This report includes desk and field research in the Philippines aimed at ascertaining the USAID mission's efforts to strengthen partner-country capacity to implement programs, enhance and promote country ownership, and increase sustainability. It is through these three lenses that this report has been organized. However, we do recognize that these goals are interdependent and examples throughout the report could easily be placed in more than one goal.

Our research in the Philippines included two qualitative data-collection methods: 1) 20 individual interviews and 2) a government entity mentioned within one of four focus groups with representatives from 32 Filipino institutions (see Annex I for the list of organizations).

Three criteria were used to determine which institutions in the Philippines were interviewed for this research: 1) a local organization awarded one of the procurements examined in our prior report, 2) a government entity within one of the procurements from our prior report, 3) an institution listed on the USAID data table for strengthening partner capacity. Additionally, one of the focus groups included non-governmental organizations (NGOs) that have not received USAID funding. This was done in order to gain outside perceptions of the agency. The focus groups included local organizations or government departments from the three major provinces of Luzon, Visayas and Mindanao. The goal here was to gain information outside of the capital, Manila. We also reviewed Government of the Philippines

(GPH) and USAID policy and partnership documents, USAID-funded project reports, and USAID financial data. The interview questions were based on the four criteria used to measure country ownership, sustainability and capacity in our initial desk research. Researchers focused their interviews on local actors and USAID staff.

This report does not comment on the overall portfolio of USAID/Philippines, of which well over half is awarded to international organizations. While Local Solutions goals can and should be a part of those awards, this report does not speak to that aspect of USAID's work.

In addition to gathering information on how the USAID mission is incorporating the Local Solutions initiative into its business processes and program goals, we also sought to gain a qualitative understanding of what shift in practice, if any, local actors experienced in USAID's operations as a result of the initiative.



Credit: Denvie Balido/Save the Children.

Country Background

The United States' relationship with the Philippines began in 1898, when President McKinley defined the colonial mission there as preparation for the Philippines' eventual independence. This so-called first phase of U.S. involvement lasted until 1935. The country drew up its first constitution in 1934, after the U.S. Congress passed legislation approving a ten-year period of transition to independence. The next phase, from 1936 to 1946, involved the establishment of the Commonwealth of the Philippines and the Japanese occupation during World War II. It wasn't until 1944, when Allied forces invaded the Philippines and the Japanese surrendered on September 2, 1945, that the Philippines became an independent nation.⁸

Today, the Philippines is a middle-income country with a population of over 100 million people inhabiting 7,100 islands that, combined, are about the size of Arizona. It is a densely populated and culturally diverse country with a civil society that includes approximately 15,000 registered NGOs focused on development issues.⁹ Additionally, the Philippines has a dynamic private sector working to address the country's most pressing social and economic challenges.

The United States has been providing aid to the Philippines since 1946 through training and technical assistance aimed at increased agricultural productivity, economic growth, sustainable environmental management, improved health systems and democratic systems of government. Currently, under the leadership of Mission Director Gloria Steele, USAID has focused its development assistance to the Philippines on health, education, the environment and economic growth.¹⁰ Anti-terrorism priorities also play an important role in the U.S. government's assistance, especially in conflict-affected regions of Mindanao.

The Philippine Development Plan (2011-2016)

In 2011, the Government of the Philippines (GPH) launched a five-year development plan.¹¹ The Philippines Development Plan (PDP) has three broad goals: 1) attain high and sustained economic growth that provides productive employment opportunities, 2) equalize access to development opportunities across geographic areas and across the income and social spectrum, and 3) formulate and implement effective and responsive social safety nets for those who are unable to immediately participate in this new economic growth process.¹² The PDP also includes a results framework with mid-term and final evaluations.¹³ The plan was developed in consultation with multiple local stakeholder groups representing various social and economic constituencies in the country.

Government officials strongly believe that it is GPH's primary responsibility to help meet the needs of all Philippine citizens. They pointed to the PDP as the blueprint to address the challenges they have identified collectively. They also referenced the three existing multi-stakeholder, participatory initiatives – the Bottom Up Budgeting process, the Barangay Development Councils, and the Philippine Development Forum – as means to achieve sustainability. Government officials expressed gratitude for the support of all development partners in the Philippines, but stressed the need for external support to be aligned with PDP priorities. Where development projects are aligned with PDP priorities, most departments claim to have made arrangements to take over the development partners' responsibilities at the end of the project period.



Country Ownership of Priorities

As discussed above, country ownership is central to the Local Solutions initiative. In this section we assess how USAID/Philippines is integrating country ownership in its work.

Why is Country Ownership Important?

Country ownership refers to the idea that developing country institutions – government agencies, NGOs and private sector entities – should take the lead in defining their own development priorities, designing their own strategies to implement them, and managing their own development processes.

Country ownership is important for long-term, sustainable development and impact. More than 50 years of development experience has demonstrated that development is not enduring unless it is “owned” by local government, civil society, beneficiaries and the private sector. Local institutions and communities must determine what matters most for the country and work to ensure accountable institutions and government.

USAID’s Local Systems Framework emphasizes that “...Development investments in poor countries, of whatever form, should catalyze the economic, political and social processes within those countries that yield ever-improving lives for their citizens.”

Overall, greater emphasis needs to be placed on giving ownership and leadership to citizens of developing countries as they use foreign aid as a catalyst for development.

Integrating the Philippine Development Plan into USAID’s Country Strategy

USAID took into account the Philippine Development Plan in developing its own plans. Through six-year strategies, global initiatives and joint country action plans USAID has attempted to align its work with the goals of the Philippines. In 2012, one year after the PDP was initiated, USAID released its Country Development Cooperation Strategy (CDCS) for the Philippines. The strategy is intended to inform mission planning, budgeting and resource allocation, and its goals are designed to be achieved in close collaboration with host governments and citizens. The Philippines’ CDCS has three primary development objectives: 1) broad-based and inclusive growth accelerated and sustained, 2) peace and stability in conflict-affected areas in Mindanao improved, 3) environmental resilience improved. In addition, the CDCS states that “the three broad PDP goals are fully consistent with USAID’s own objectives in the country.”¹⁴ The GPH required final approval of the CDCS,¹⁵ a fact which illustrates one specific “check and balance” before USAID’s strategy implementation began.

Incorporated into the CDCS is the U.S. Government Partnership for Growth (PFG) program. The Philippines was one of four nations globally selected for PFG, which includes support from multiple U.S. Government agencies. The PFG five-year Joint Country Action Plan was developed by the two governments, demonstrating further commitment by the U.S. government to country ownership. The partnership is primarily focused on economic growth and development in the Philippines. Mission officials cited the PFG’s joint U.S. Government-GPH commission to conduct a constraints-to-growth analysis as the foundation for their collaboration.

USAID's Public Commitment to Working with Local Institutions


Save the Children interviewed multiple USAID staff to hear how and why they were working with local governments and organizations. We found that the mission leadership saw significant value in working with Filipino partners and described Local Solutions as a priority. The current USAID Mission Director, Gloria Steele, said “As a result of the USAID reform agenda in 2010, the one thing I held onto was working with local organizations. It was close to my heart and timely.” She went on to say, “Going local is putting the country in the driver’s seat of their development.”¹⁶ In addition to public statements, senior USAID staff expressed that many local organizations had the capacity to implement USAID projects. “Our evaluation standards are the same as for American organizations. We are still measuring impact and won’t compromise on that. We are only changing who we hold accountable,” said one USAID staff member.¹⁷ In addition to verbal commitments to Local Solutions, USAID/Philippine’s efforts to reach a higher percentage of direct funds to local organizations – a 40 percent goal instead of the agency goal of 30 percent – is evidence of the strength of this commitment.

USAID Collaboration with the Government of the Philippines

Philippine government officials interviewed at the Departments of Health, Interior and Local Government Units, and Education welcomed the increased coordination with USAID at the national and local levels. USAID-funded projects in basic education and economic growth were referenced as “models of donor support” for focusing on country priorities. These collaborations, detailed later in this report, have shared outcome indicators and joint planning and management committees that

included representatives from GPH, USAID and implementing partners.

Officials at the National Economic Development Authority (NEDA), the focal government institution for all development cooperation and the organization that oversees the PDP, expressed that USAID has been a responsive partner, especially through the PFG process. Staff at NEDA also expressed that USAID often shared results faster than other donors.¹⁸



“Harmonization of performance metrics between USAID and GPH would support and reinforce the shared outcome metrics already in place and strengthen accountability at the project level.”

Philippine Government Official

A few government officials, however, highlighted areas in need of improvement. One official recommended that USAID be mindful of its project branding because “strong branding kills project sustainability” by making it difficult for the GPH to take over or integrate projects into other government efforts. Respondents suggested that branding should be limited to “recognition of the agency’s support” and not create a “project identity [tied to USAID].” Another official stated that the next level of collaboration with the agency should allow capable GPH departments to participate in the performance evaluation of USAID’s implementing partners. According to this respondent, this would allow for the harmonization of performance indicators and create more accountability around individual project results.

Supporting Country Development Priorities at the Sector and Project Level

In addition to integrating the Government of the Philippines' development priorities into its overall strategy, the USAID mission works closely with the government at the sector level, especially government departments. Examples of sector-level collaboration reviewed for this report include the Departments of Health, Interior and Local Government Units, and Education. According to the mission, it is now common practice to engage GPH on USAID project concepts before they are finalized, to convene GPH and implementing partners to jointly formulate action plans at the sector level and, in some instances, to have the GPH participate in selection panels for USAID bids.

The USAID mission's collaboration with the Department of Education (DepEd) on early grade literacy development through the Basa Pilipinas (Read Philippines) project best illustrates this new approach. Basa is a four-year, \$24 million USAID-funded project that seeks to strengthen DepEd's capacity in educational material development in multiple languages. The project is implemented by a consortium of Filipino and international organizations led by the U.S.-based Education Development Center (EDC).

The USAID-GPH collaboration around Basa spans from developing shared early literacy objectives to shared responsibilities for activities. In addition to integrating USAID's standard indicators, the project tracks and reports to DepEd on output indicators such as teachers trained and material developed and distributed. DepEd doesn't receive any direct funding from USAID, but DepEd chose the pilot sites and participated in the selection of USAID's implementing partners.

"[USAID's] Basa is DepEd-centric; every move in this program has to be consulted with and approved by DepEd."

Basa Pilipinas Implementing Partner

Through Basa, USAID is supporting specific aspects of the GPH's national early literacy and numeracy program, including improved literacy in three languages across three grades. The collaboration illustrates how U.S. Government development assistance supports locally identified priorities while allowing local organizations to lead their own development. Ultimately, DepEd has final sign off on the elements of the Basa project and how the funds are directed. DepEd has plans in place to not only take over Basa-specific activities but also to scale up the learning across 80,000 primary schools in the country.

USAID/Philippines is also supporting GPH priorities by working with the Department of Health. By jointly targeting financial resources, USAID is helping the GPH achieve its universal health care objectives. By supporting policy and systems development and capacity-building at the national, regional and local government unit levels, USAID is also strengthening the Department of Health's ability to care for Filipinos. This joint effort funds activities in the areas of maternal and child health, family planning, and tuberculosis. USAID and the Department of Health are contributing \$145.7 million and \$48.6 million, respectively, to the agreement. USAID controls its own contribution through a network of 17 implementing partners while the Department of Health's contribution is managed by its regional and field offices.

Strengthening Healthcare Systems with Corporate Foundations

USAID is also working to support GPH health systems by collaborating with a corporate foundation that is helping the Philippines achieve the health-focused Millennium Development Goals (MDGs).¹⁹ The Zuellig Family Foundation (ZFF) is promoting effective and sustainable healthcare systems, with an emphasis on primary healthcare services in rural communities. ZFF's Health Leadership and Governance Program (HLGP) is a key component of the foundation and has received support from USAID. It was developed and tested in-house through ZFF's social development lab. The model is based on the assumption that leadership is key to changing health systems and developing inclusive programs that lead to better health outcomes. ZFF partners with municipalities with high health care burdens that are governed by leaders – governors, mayors, health officers, and community leaders – committed to improving the health outcomes of their constituents. ZFF provides two-year, four-module, face-to-face health leadership and governance training to these individuals, which covers the areas of leadership, governance, community participation and service delivery. Between modules, leaders apply their newly acquired skills to address the health problems facing their municipality. With USAID's support, the HLGP model was adopted by the Department of Health in 2012 and rolled out in 609 priority municipalities.

The ZFF example illustrates how support for a Filipino corporate foundation's work, is strengthening country systems and building government ownership over how health care is delivered in the country.

“In 2009, ZFF piloted its Health Change Model in nine municipalities. Their combined maternal mortality ratio (MMR) the year before was 167. This came down to 148 after a year, and continued to drop even after the two-year formal partnership program ended. In 2011, their MMR was at 60 and stood at only 40 as of the first half of 2012 – meeting the country's MDG target three years ahead of the deadline.”

See: <http://ppp.gov.ph/?p=11677>

Sustainability

Funding Filipino organizations directly and strengthening country systems are major components of implementing the Local Solutions initiative to enhance long-term sustainability. To this end, the mission determined that a number²⁰ of Filipino organizations in the private and not-for-profit sectors had enough organizational and/or technical capacity to justify a cautious and gradual engagement with them. As mentioned previously, the USAID mission set for itself the goal of obligating 40 percent of mission funding directly to local organizations by 2015, well above the agency target of 30 percent, and they adopted several methods to meet this threshold.²¹ The mission has said it will achieve and exceed its 40 percent goal by the end of 2015.²² Another key example of USAID/Philippines' support for sustainability is the mission's effort to fund local organizations and collaborate with local government

Smaller Award Amounts Encourage Local Participation

By simply reducing the size of some of its grants, the mission created opportunities for local organizations that are programmatically capable of competing with international organizations for USAID awards. Even the most sophisticated local implementing organizations interviewed for this research said that they lacked the proper systems to effectively manage average USAID grants, which are usually in the range of tens of millions of dollars per project. Local Filipino organizations prefer to bid on smaller grants, and frequently mentioned grants of "up to \$5 million" as the threshold they would feel comfortable managing. Most of the Filipino organizations receiving direct USAID mission funding were managing grants ranging from \$1.1 million to \$3.5 million over two-to-three year periods.²³ Some Filipino organizations also won grants in

open competition solicitations. The projects managed by the Ayala Foundation and Orient Integrated Development Consultants, Inc. (OIDCI) were both open-competition solicitations by USAID that were won by these Filipino organizations. This highlights the existing capacity and ability of local organizations to propose strong development projects and win awards that were also bid on by international organizations. It further illustrates that while many Filipino organizations need to be strengthened, there are local organizations that are currently capable and ready to work with USAID.

How Missions Can Support Local NGOs: Lessons from the Philippines

1. Create projects with smaller funding amounts or limited competition bids to encourage more local proposals.
2. Seek out bids from local coalitions or consortiums to jointly implement USAID projects.
3. Incentivize USAID staff to learn about existing NGOs or needed capacity within the country.
4. Design a project/solicitation with the sole purpose of capacity strengthening to cultivate future partners.
5. Partner with local financial institutions to oversee NGO financial and systems capacity.

Engagement through For-profit Company Foundations

Embracing new partnerships, particularly with the private sector, is a main aim of the Local Solutions initiative. Many corporations operating in the Philippines either have a foundation of their own or their corporate officials sit on the board of a non-profit organization. The USAID mission is leveraging local private sector know-how and financial resources through these foundations. Two USAID-funded corporate foundations or corporate-related NGOs reviewed for this research included Philippine Business for Social Progress (PBSP) and Philippine Business for Education (PBED).

Philippine Business for Social Progress is a foundation with a membership of over 250 corporations that supports programs in health, education, the environment, and livelihood and enterprise development. The organization's health portfolio includes a \$29 million six-year USAID grant to support the Philippine national TB Program. The project, called IMPACT, works with other private sector organizations like the Philippine Pharmacists Association and the previously mentioned Zuileg Family Foundation to treat and prevent tuberculosis as part of the government's Philippine Plan of Action for TB.

Philippine Business for Education is a non-profit corporation founded by the Filipino business community with the mission of bringing together government, the private sector and academia to address economic competitiveness and the Filipino labor force. The organization received a three-year, \$1.5 million award from USAID in 2012 to help address skills gaps in the workforce and the lack of educational opportunities to fill those gaps in the Philippines' higher education system.

During project implementation, Philippine Business for Education identified the need to orient youth participating in the project to the grant objectives, which USAID agreed to support. The organization launched a career

exploration site called Futureyou.ph that provides up-to-date data on high-growth career sectors in the Philippines and the most competitive schools in the country where students could receive the training required to gain employment in those sectors. It has become an information platform for families (parents and students) seeking educational paths and career opportunities in the Philippines. It has recorded, on average, more than 500 new visitors each month since its launch in September 2014.

In addition to the aforementioned foundations, the Petron Foundation and the National Bookstore Foundation are active participants in USAID's early grade literacy development project, Basa Pilipinas. Furthermore, the St. Miguel and other local foundations are USAID partners in community-based social enterprise development in various sectors, including biodiversity conservation and climate mitigation.

In the Philippines, the USAID mission's ability to leverage different local stakeholders in support of shared development priorities positions it as a facilitator and a catalyst for joint action among local actors. This is a role envisioned for the agency in the USAID Forward reforms.

Strengthening the Business Sector through Government Reforms

As a part of U.S. Government Partnership for Growth program, USAID has recently allocated an average of \$23.9 million a year to economic development; one aspect of this work has been strengthening the business sector (see graph 2 in the Annex). Researchers spoke with the Filipino contractor and one of the government departments involved in the USAID-funded Investment Enabling Environment (INVEST) Project. This project, managed by Orient Integrated Development Consultants, Inc. (OIDCI), sought to improve the enabling business environment in three

cities. By working with the Department of Interior and Local Government Units and engaging other national government agencies, the project worked to improve economic competitiveness and generate more investment. While all of the funding – \$3.4 million – went to a local contractor, the project focused on improving government systems. OIDCI worked with local government units in the three cities to reform their systems; it also helped local political leaders revise city codes that were challenging to business development and investment. In addition to achieving sustainability through policy change, the contractor helped local government units develop action plans that were intended for use after the project was completed.

Local Organizations’ Perceptions of Sustainability

Based on interviews with Filipino organizations, many believe that the primary measure of sustainability in their work is their capacity to deliver effective and lasting results. Whether they receive funding from USAID or not, they see their projects as a means of testing the best and most sustainable ways to address the challenges facing their communities. The local

options they use to scale up their best practices – including the government’s Bottom Up Budgeting (BUB) process and the mandatory representation of NGOs on the local (Barangay) Development Councils – warrant further study.²⁴ These options are used as a means to encourage local and national government to commit funding to adopting and scaling up the best practices gleaned from civil society organizations (CSOs) in the areas of economic growth, health, education, social enterprise development, livelihoods, and climate mitigation.

These organizations have used foreign aid to help implement their missions, but do not see aid as a critical factor in sustainability. This is particularly true for the smallest and most localized CSOs. One local CSO that promotes the rights of indigenous people in Mindanao believes that the sustainability of its work is determined by the ability of indigenous people to advocate for themselves, starting with proper representation in local government as required by law. Other CSOs, such as those working on disaster risk reduction and climate change mitigation projects, are focused on capturing their best practices in local ordinances, especially at the municipal level.

Capacity Strengthening

Alongside sustainability and local ownership, strengthening local capacity is the third major component of the Local Solutions initiative. To this end, USAID/Philippines is building a pipeline of future partners through a combination of organizational capacity strengthening activities and sub-granting opportunities. Researchers examined two projects and two funding mechanisms that can be categorized as capacity strengthening.

Strengthening the Capacity of Civil Society Organizations

A \$1.3 million, three-year capacity-building project was won by a consortium of six Filipino organizations led by the Ayala Foundation. The project sought to strengthen the organizational effectiveness and accountability of 120 CSOs. Specific areas of emphasis were governance structures, domestic resource mobilization, project monitoring and evaluation, financial management and administration.

One of these networks is the MASS-SPECC Cooperative Development Center, a network of 294 Filipino social enterprise development co-operatives with an annual operational income of \$25 million in 2013 and consolidated assets of more than \$600 million. The Center has adapted the USAID-funded capacity-building training modules and incorporated them into its Capacity Building Program for Cooperatives. This has significant implications for the project's reach, since about 27 percent of MASS-SPECC members participate in the Department of Social Welfare and Development's Community-Driven Enterprise Development project. This project includes managing the Department's conditional cash transfers – a social safety grant for family welfare – for thousands of poor Filipino families.

In addition to MASS-SPECC, the capacity strengthening project reached 138 Filipino organizations, including 15 CSO networks, with hands-on formal training in organizational capacity assessment and strengthening, mentoring and internships. One of the most exciting successes is that several organizations that operate as networks have started to adapt the training modules in training their own members. This means that a USAID investment to strengthen a limited number of local organizations is having a multiplier effect, possibly benefiting two to three times more organizations than initially anticipated and affecting several of the country's development priorities.

What Type of Capacity is Needed?

Capacity does not always need to be built, sometimes it just needs to be strengthened. Local NGOs, foundations and government departments make significant contributions in terms of knowledge of their community, financial management experience, technical program capacity or existing systems and infrastructure. In recognition of this, USAID/Philippines has shaped its work to make use of existing systems and capacity or to further strengthen them.

The definition of “capacity” should not be limited to the ability of an organization to meet complex and cumbersome donor needs. A wide range of organizations add value to development efforts and function as important drivers of development in their country.

Supporting Local Organizations through a Grant-making Fund

Building off the Ayala Foundation's capacity strengthening project, USAID developed a grant-making fund that is administered by a local foundation. By providing grants to local organizations through a third party, USAID is building the programmatic and grant management capacity of dozens of organizations. This grant-making fund, called the Philippine-American Fund (Phil-Am Fund), is managed by the Gerry Roxas Foundation (GRF). Through a five-year, \$24 million USAID grant, Phil-Am finances projects in a variety of sectors, including local activities that address the constraints to growth identified in the Partnership for Growth analysis and other Philippine national development goals.

Phil-Am provides competitive small grants designed to provide local organizations the opportunity to familiarize themselves with USAID operational processes and sharpen their management capacity. The grant award process is rigorous. In order to receive any funds, organizations must pass NUPAS (Non-U.S. organization Pre-award Survey). Phil-Am Fund staff shared that some of the grantees were provided start-up seed money to aid them in expediting the corrective actions necessary for them to be eligible for cash advances. In addition to NUPAS during the awards process, grantees are also closely monitored during the project implementation phase. Through an online, real-time audit platform, Phil-Am Fund staff are able to see how grantees are managing their funds and can quickly see any transactions or postings. Virtual oversight is followed up via field visits made by financial specialists of the Phil-Am Fund grant management team. This practice further illustrates measures that USAID has put in place to help manage financial risks.

It is worth noting that 21 of the trainees from the previously mentioned USAID-funded CSO capacity-strengthening project participated in

Phil-Am Fund's first solicitation cycle. This demonstrates productive linkages between USAID-funded projects and the intentional effort of USAID/Philippines to cultivate a new set of local partners.

The second grant cycle is now integrating lessons from the first cycle such as: simplifying the grant process, reducing the average grant size to cover more grantees, and designing a capacity-building program to support a learning agenda based on the themes of the Fund.

As illustrated by the two projects above, USAID/Philippines' capacity-building approach utilizes local talent and expertise. The mentorship component of the Ayala project uses local experts, creating continuity and trusted relationships that will outlive the USAID grant. The Philippine-American Fund is not simply a pathway to USAID funding for local organizations. It is also an opportunity to influence how the Fund is structured, who accesses the grants and how potential projects serve the Philippines' needs.

Limited Competition Bids Can Strengthen Capacity

In addition to reducing the size of some of their grants to make them more manageable for local Filipino organizations, the mission also organized a series of limited competition bids for Filipino organizations to build capacity. These bids were opened only to Filipino organizations. They were structured either as a Cooperative Agreement or Fixed Price Contract and were intended to leverage local expertise and provide recipients with a context-appropriate introduction to working with USAID, as explained below.

One example of this approach is the USAID mission's partnership with the Integrated Midwives Association of the Philippines (IMAP), a network of midwives involved in the implementation of the GPH's maternal, newborn, child health and nutrition strategy. Despite its well-established technical expertise,

IMAP had weak financial and management capacity to handle USAID funding. In spite of this, the mission worked with IMAP to develop a six-month organizational capacity strengthening action plan and to identify a mentor to support its implementation. The mission then provided IMAP with six-months of working capital to support the effort. Today,

IMAP is managing a \$799,500 mission grant to deliver basic health services, train midwives, promote preventive healthcare, and implement emergency preparedness and response activities. This is an example of USAID/Philippines' recognition of IMAP's existing capacity to deliver sustainable results as a part of GPH strategies.



AC Dimatactac/Save the Children

Conclusion

Despite the donor-driven structure of the U.S. foreign assistance system, USAID/Philippines is working to incorporate the Local Solutions initiative into its business model. The mission has devised a context-specific strategy to support aspects of the development priorities identified by the Philippine government, civil society and private sector. The initiative has created some space to allow local participation in USAID's operational decision-making processes; fund different types of Filipino organizations; leverage domestic resources; and support promising local initiatives and organizations.

The USAID mission is set to achieve the only known indicator used to track implementation of the initiative: The agency-wide target of 30 percent of mission direct funding to local organizations by 2015. However, simply measuring funding alone does not do justice to all the other ways in which USAID is promoting the goals of Local Solutions. For example, USAID's efforts, especially those seen to directly support the country's development priorities in the PDP, were recognized

by local partners. Overall, as the Philippines continues on its own path to development, USAID's embrace of the Local Solutions initiative can support the country in meeting its own goals.

In addition to support for Local Solutions in the Philippines, Save the Children strongly supports the continuation of the initiative to institutionalize agency-wide changes in how USAID partners with, plans, implements and funds development work around the world.

As mentioned previously, Local Solutions should not be viewed as one of many agency initiatives, but as blueprint for how USAID should work in-country. Below is a list of recommendations that can help the agency further strengthen the Local Solutions initiative. By implementing and institutionalizing these recommendations, USAID and its individual missions can progress toward greater country ownership and sustainability. As a result, the agency will be a stronger partner and more able to use foreign aid as a catalyst, so that one day countries can meet their own needs.

Recommendations

Recommendations

For USAID/Washington:

Commit to institutionalizing Local Solutions agency-wide. Ensure that country ownership, capacity-building and sustainability define how USAID designs and implements its programs across the board. A leadership and staff level commitment that is reflected in annual job performance evaluations, for example, would be a good step toward ensuring effective implementation of USAID's Local Solutions initiative.

Ensure commitment and leadership from mission directors. In the case of the Philippines, Mission Director Gloria Steele advanced the Local Solutions initiative by recognizing the value in working with and through local institutions. Her commitment to using 40 percent of the USAID/Philippines' budget to fund local institutions demonstrates that commitment. Future mission directors should be chosen based not only on their development and management expertise, but also by their commitment to and experience in embracing a new way of partnering and supporting country-led priorities and work.

Create new indicators for local solutions. Implement new, measureable, agency-wide Local Solutions indicators beginning in fiscal year 2016. As mentioned in our 2014 report, *Save the Children* recommends nine additional indicators (see Annex 3) to gauge how USAID is strengthening partner-country capacity, promoting country ownership and increasing sustainability. Many of these indicators have broad support, as demonstrated by recent recommendations along these lines from the Modernizing Foreign Assistance Network, a coalition of development-focused organizations.²⁵ USAID/Philippines is working to support country ownership, sustainability and capacity-strengthening in a variety of ways that cannot be captured solely by the amount of

mission funds that go to local institutions. Additional indicators would shed light on what works and what doesn't, making the agency more effective.

Require a comprehensive sustainability plan for all project proposals. Sustainability should be an integral piece of project design and a heavily weighted criterion of proposal evaluations. What this looks like may vary greatly depending on the context. As illustrated in this report, USAID/Philippines engaged a local for-profit consultant to work with the government and improve the business environment in three Philippine cities. Many of the measures taken to improve the business environment were policy changes implemented through local city reforms. This is a prime example of working through permanent country systems to create sustainable change – in this case making it easier for Filipinos to start and grow businesses.

Align budgets with country priorities. USAID/Washington must go beyond policy statements and work with missions to better align USAID budgets to country priorities identified in the Country Development Cooperation Strategy (CDCS). It must also provide flexibility to missions, enabling them to support and strengthen systems and organizations, such as local NGOs. Unfortunately, the USAID/Philippines budget exemplifies the challenge many missions face. Due to Congressional earmarks and priorities set in Washington, DC, from FY 2011 – 14, the top three development priorities identified in the CDCS received 23.4% (economic development), 12.3% (the environment) and 1.8% (peace and security) of the overall mission budget – collectively well under half of the mission's annual funds (see table in Annex 2). As shown in the Annex, these percentages were not significantly impacted by the influx of emergency aid after typhoon Haiyan.

For USAID missions:

As appropriate, align the mission's strategy with the country's strategy.

Ensure appropriate alignment between the mission's CDCS, budget and projects with locally defined development priorities. When appropriate, project indicators should be agreed upon and shared by USAID and the host country to foster greater alignment of priorities at all levels of development. The joint planning process should include extensive consultation and documented adoption of civil society-identified development priorities.

Develop mission-level Local Solutions strategies. Develop context-specific Local Solutions strategies that can be monitored and periodically assessed. USAID/Philippines' strategy, whether formal or informal, used multiple tools, such as context-specific funding mechanisms, project co-financing with the government, support for capacity-strengthening of local organizations, and funding for local organizations through a grant-making fund. Other missions should work to take a long-term, multi-pronged approach to support locally owned development.

When possible, leverage domestic resources and support public-private partnerships.

By leveraging domestic resources through co-financing and public-private partnerships, USAID can often multiply the effects of its investments. For example, co-financed projects between USAID/Philippines, the Philippines-based Zuellig Family Foundation and the Department of Health increased USAID's programmatic reach and local ownership of development programs.

Build relationships with and learn about local institutions. Proactively reach out to local institutions and identify and support worthy local initiatives. USAID/Philippines supported projects that exposed them to over 100 new local organizations with expertise in a wide variety of development-related issues. The mission now has a better understanding of NGOs from across the country, including access to a wide range of local sector expertise.

Annexes

List of Organizations Interviewed	Location of Interview
Ayala Foundation	Manila
Alay Mindanao	Davao
Bidlisiw Foundation	Manila
Central Mindanao Youth Center-Mindanao Emergency Response Network	Davao
Civil Defense Department	Manila
CODE-NGO – National office	Manila/Davao
Department of Health – Office of International Cooperation	Manila
Department of the Interior and Local Government Units	Manila
Education Development Center, Inc. (EDC)	Manila
Foundation for Information Technology, Education and Development, Inc. (FIT-ED)	Manila
Gerry Roxas Foundation	Manila
Hauman Association Inc.	Manila
Indigenous People’s Maternal, Neonatal, Child Health and Nutrition	Davao
Katlyakap Inc.	Davao
Mass-SPECC Cooperative Development Center	Manila
Mindanao-CODE NGO	Davao
Mindanao Migrants Center for Children’s Right and Protection-Bantay Bata	Davao
Mindanao Migrants Center for Empowering Actions, Inc.	Davao
Mindanao Migrants Center for Children’s Right and Protection	Davao
Mindanao Migrants Center for Children’s Right and Protection-Bantay Bata	Davao
Mindanao Migrants Center for Children’s Rights and Protection-Tambayan	Davao
National Economic and Development Authority (NEDA)	Manila
Orient Integrated Development Consulting	Manila
Philippine Business for Education (PBed)	Manila
Philippines Business for Social Progress (PBSP)	Manila
Philippine S&T Development Foundation-Manila, Inc. (PhilDev)	Manila
Philippine Partnership for the Development of Human Resources in Rural Areas (PhilDHRRA)	Davao
San Jose Integrated Social Forestry Farmers Association	Davao
Save the Children Philippines	Manila/Davao
Tropics-Ateneo (Tropical Institute for Climate Studies)	Davao
World Wildlife Fund	Manila
Zuellig Family Foundation	Manila

USAID/Philippines Funding by Sector

	2011	2012	2013	2014
Democracy and Governance	\$9.3	\$6.6	\$7.3	\$11.2
Economic Development	\$37.6	\$35.2	\$7.4	\$15.2
Education and Social Services	\$13	\$4.5	\$6.6	\$13.7
Environment	\$6.7	\$7.6	\$17	\$19.1
Health	\$32.1	\$26.7	\$30.2	\$40.8
Humanitarian Assistance	\$4.2	\$0.3	\$11.1	\$39.1
Peace and Security	\$2.2	\$0.9	\$0.8	\$1.4
Total millions of dollars	\$105.1	\$81.8	\$80.4	\$140.5

Recommended Indicators for the Local Solutions initiative

- Number and percentage of projects supporting specified country priority or plan
- Number of new local institutions leading project implementation in the fiscal year
- Number of local institutions implementing sub-grants or sub-contracts
- Total value and percentage of project funds awarded to local institutions in the fiscal year (disaggregated by type of funding)
- Value and percentage of project funds contributed by local institutions
- Number and percentage of projects with results achieved by local institutions
- Number and percentage of projects with a sustainability plan
- Number and percentage of project indicators aligned with indicators in host country development plans
- Number and percentage of USAID-funded projects with oversight or steering structures that include local institutions.

USAID-Funded Projects Reviewed

Project	Sector
Phil-Am Fund	Economic Growth; Democracy and Governance; Energy and Environment
INVEST	Economic Growth
Basa Pilipinas	Education
IDEA	Education
Abuan Watershed	Energy and Environment
AMCCAP (Agusan Marsh Climate Change Adaptation Project)	Energy and Environment
IMPACT	Health
ICT Capacity and Impact for Education Outcomes	Education
Health Leadership and Governance Program	Health
CSO Capacity Strengthening	Capacity-building
Higher Education and Productivity Project (HEP)	Education

Endnotes

- 1 USAID Forward Progress report, p. 29, www.usaid.gov/sites/default/files/documents/1868/2013-usaid-forward-report.pdf and the GAO report: *USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress* (April 2014), www.gao.gov/assets/670/662596.pdf.
- 2 Paris Declaration Document, www.oecd.org/dac/effectiveness/34428351.pdf.
- 3 See USAID Forward at a Glance, <http://www.usaid.gov/usaidtheforward/>
- 4 USAID Forward Progress report, p. 29, www.usaid.gov/sites/default/files/documents/1868/2013-usaid-forward-report.pdf and the GAO report: *USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress* (April 2014), www.gao.gov/assets/670/662596.pdf.
- 5 Office of Inspector General, Audit of USAID Country and Regional Development Cooperation Strategies, <https://oig.usaid.gov/sites/default/files/audit-reports/9-000-15-001-p.pdf>.
- 6 That is, the amount of mission funds allocated to local organizations.
- 7 As determined by the GAO report: *USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress* (April 2014), www.gao.gov/assets/670/662596.pdf.
- 8 For more information, see www.nationsonline.org/oneWorld/History/Philippines-history.htm.
- 9 NGO-CODE's estimate provided during an interview on January 25, 2015.
- 10 See Annex funding table.
- 11 <http://devplan.neda.gov.ph/index.php>.
- 12 <http://devplan.neda.gov.ph/about-the-plan.php>.
- 13 www.neda.gov.ph/wp-content/uploads/2013/10/pdprm2011-2016.pdf.
- 14 For more information on the Philippines' CDCS see: www.usaid.gov/sites/default/files/documents/1861/CDCS_Philippines_FY2012-FY2016.pdf.
- 15 Interview with NEDA staff in January 2015.
- 16 Speech made by Gloria Steele at the Capacity Strengthening Project Culminating Event, January 2015.
- 17 Interview with USAID staff in January 2015.
- 18 Interview with NEDA staff in January 2015.
- 19 See Zuellig Family Foundation website: www.zuelligfoundation.org.
- 20 In 2012 and 2013, USAID provided direct funding to 63 different Filipino organizations. See the capacity strengthening data table, www.usaid.gov/usaidtheforward/.
- 21 Agency-wide, USAID uses only one indicator to assess missions' performance on the *Local Solutions initiative: Mission direct funding to local organizations*. The agency-wide performance target is 30 percent by 2015.
- 22 Email correspondence with USAID/Philippines mission staff, May 2015.
- 23 Filipino organizations with much larger USAID grants lead consortiums of multiple organizations.
- 24 The BUB process comes with grants and loans to implement community-generated local poverty reduction action plans. It is a four-year initiative by the current administration; CSOs are committed to advocating for its passage into law.
- 25 See Modernizing Foreign Assistance Network's Local Solutions Metrics Paper, <http://www.modernizeaid.net/>



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