



OWNERSHIP IN PRACTICE

Capacity:

Helping countries lead



Ownership in Practice

In trying to improve US foreign aid, Oxfam America believes that we must listen to the people who know aid best: those who receive and deliver aid. They understand best how aid should work, how aid delivery affects outcomes, and how aid can motivate governments and communities to invest in their own development. The Ownership in Practice policy briefs reflect perspectives from the field on the kinds of reforms that would improve the usefulness of US foreign aid on the ground, as well as insights from policymakers in Washington as to possible policy options that would put this vision into practice.

Sixty years of US foreign aid have shown that donors cannot fix the problems of poor people by themselves. Donor-imposed solutions are often wrong for the context. Even when the solutions are right, successes aren't maintained without buy-in and commitments from governments and citizens.

That's why Oxfam America is recommending that US foreign aid be delivered in ways that strengthen the voice of citizens and the responsiveness of governments to their people. In short, aid needs to strengthen the "compact" between governments and citizens—a government's commitment to fulfilling its responsibilities in promoting development, and the people's efforts to hold their governments accountable.

To make foreign aid a more useful resource for reducing poverty, Oxfam is calling for specific reforms that would help US foreign aid support effective governments and active citizens. In particular, reforms should give those US agencies that deliver development assistance the mandate and resources to support the following three principles:

- **Information: Let countries know what donors are doing.** Unless recipient countries get accessible, comprehensive, timely, and comparable information from donors, recipients can't hold their governments accountable. In turn, those governments can't plan, prioritize, or explain to their populations what they are doing; manage their fiscal and monetary policy; or strengthen the investment climate. The least the US can do is be more transparent and predictable with its foreign aid.

- **Capacity: Help countries lead.** The capacity of any given public sector or civil society depends on the commitments by people in those countries to invest in their human capital, organizations, and institutions. The US could better support capacity building by being more demand-driven, reducing its overreliance on the contractor model as currently designed, and increasing its use of country systems.
- **Control: Let countries lead.** Ultimately, ownership means supporting effective governments and active citizens' efforts to determine how they use aid resources as part of their broader development agenda. The least the US can do in this direction is reduce earmarks and presidential initiatives to avoid inconsistencies with country priorities. Ideally, the US could also provide some budget support to governments that demonstrate a commitment to reducing poverty and that can effectively manage and account for cash transfers.

This brief takes a closer look at the principle of capacity, assessing how the US can better support capacity building in recipient countries and suggesting possible reforms for the Obama administration and Congress.

Executive summary

Oxfam America is advocating for reforms of US foreign aid to make aid more supportive of the development priorities of effective governments and citizens. One challenge inherent in this approach is how to reconcile “letting countries lead” with the very low capacity to manage development often prevalent in many countries receiving aid. This is where aid for capacity building comes in.

Through our field research, Oxfam America saw firsthand some of the striking ways in which US support helped governments do their jobs better and helped citizen groups hold their governments accountable. We also learned about many of the shortcomings with US support for capacity building: how the US foreign aid system tends to be too supply driven, overrelies on a flawed contractor model, and underutilizes country systems.

What reforms could help US aid for capacity building overcome these shortcomings? To answer this question, Oxfam convened a discussion in Washington, DC, in March 2010 with representatives from US agencies, Congress, policy think tanks, contractors, and nongovernmental organizations (NGOs), as well as voices from recipient countries. Participants agreed that the real challenge in Washington is not finding consensus on the need for reform, but rather finding consensus on how to move the reform agenda forward. Participants offered the following ideas for US foreign aid policy.

Make capacity building efforts more demand-driven:

- **Define why the US provides aid for capacity building.** Participants stressed the lack of a strategy for what the US aims to accomplish through aid for capacity building. So even before discussing *how* the US provides that aid, a first question should be *why* the US provides it in the first place.
- **Ensure priorities for capacity building are country led.** Participants noted that too often the agenda for US foreign aid reflects, at best, donors’ understanding of country priorities rather than the actual priorities of recipients.
- **Support both the capacity of governments to be responsive to citizens and the capacity of citizens to hold their governments accountable.** Participants reiterated Oxfam’s basic premise that a donor mandate to respond to country priorities (to be “country-led”) means donors must answer to both governments and citizens. It means supporting citizen groups even when they may collide with their governments. It also means supporting government efforts to meet citizens’ demands.
- **Support homegrown citizen groups.** Sometimes the best ways of supporting democracy and governance may be in programs beyond those strictly defined as democracy and governance. Supporting business associations, rural cooperatives, and other such groups fosters local networks and abilities that can serve communities more broadly in their development efforts.

- **Support citizen groups for the long run.** If donors believe in supporting civil society as a means to a more democratic society, donors need to commit for the long haul.
- **Be patient in evaluating results.** US government development professionals are often under pressure to produce immediate results, even when the “results” in capacity building may take years to come to fruition.

Overcome the constraints associated with an overreliance on the contractor model:

- **Ensure that development professionals in the field have the mandate and ability to identify change agents.** US government agencies doing development programming should recruit and retain development experts who can engage with their host country counterparts to better assess local demand and opportunities for change.
- **Be willing to accept a greater level of risk when making investments.** Being more demand-driven necessarily implies that the US as a donor needs to be less risk-averse and have the mandate and tools to manage risks in different contexts.
- **Make local contracting easier.** Legislation needs to do more than just permit the use of local contracting; it needs to facilitate local contracting so missions can more readily use local resources when available.

Better support country systems:

- **Support budgeting capacity.** The US should be considerably more focused on supporting governments at all levels to better allocate and spend money.
- **Unbundle the use of country systems.** By unbundling, donors can assess the risks associated with using certain parts of the system relative to using other parts, instead of facing a binary decision of whether or not to use country systems altogether.
- **Coordinate support to governments with other donors.** Too many donors with too many projects always raise the challenge of the absorptive capacity of recipient governments. The US and other donors should focus on one set of priorities at a time, ideally, priorities defined by the recipient government.

A major lesson for the US after 60 years of foreign aid should be that donors do not always correctly understand what countries need. People in countries receiving aid know their own strengths and weaknesses. They also know their potential for change: which political leaders and agencies may be more committed to reform than others, which opportunities may be emerging for citizens to better keep their governments in check, and how donors can best support a constructive relationship between governments and citizens.

Better supporting the efforts of people in countries receiving aid implies a series of reforms for how the US supports capacity building. By moving in the directions suggested above, US foreign aid can better support the efforts of citizens and governments to improve their prospects for development, whether through a more transparent budget process, a more qualified ministry of agriculture or local government planning office, a better prepared watchdog group, or a more informed citizen.

Introduction

Oxfam America is advocating for US foreign aid reforms to make aid more supportive of the development priorities of effective governments and citizens. One challenge inherent in this approach is how to reconcile “letting countries lead” with the very low capacity to manage development often prevalent in countries receiving aid. This is where aid for capacity building comes in. The capacity of any public sector or civil society depends mostly on the incentives for and commitments by people in those countries to invest in their human capital, organizations, and institutions. Donors cannot create capacity themselves. But donors can support efforts of recipients to build their own capacity.

The US has a long history of providing aid for capacity building, but too often this aid is driven by imperatives in Washington instead of needs on the ground. Recognizing the challenge of supporting capacity building abroad, this brief intends to answer two questions:

- **How can the US provide foreign aid that effectively helps governments do their job and helps citizens keep their government accountable?** To find out, Oxfam conducted 200 interviews with representatives from governments and civil society, as well as US aid workers and contractors in Afghanistan, Cambodia, Ethiopia, Kenya, Liberia, and Rwanda, between May and November 2009.¹ Though most of our interviews centered on US Agency for International Development (USAID) efforts, conversations with other observers of US development policy suggest that the challenges we present here are just as relevant to most other US government agencies delivering development aid.
- **What specific policy reforms would improve the effectiveness of US aid for capacity building?** To answer this question, Oxfam America convened a discussion with 35 representatives from several US agencies, Congress, policy think tanks, contractors, and NGOs, as well as voices from recipient countries, in Washington, DC, in March 2010.

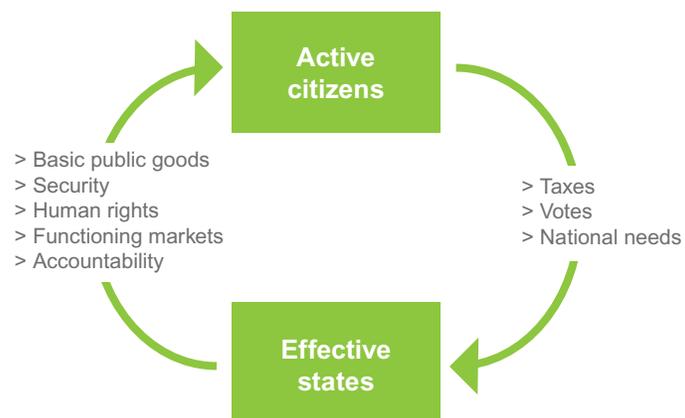
The first section of this policy brief describes the importance of capacity building in supporting country ownership. The second section briefly discusses how the US performs with respect to aid for capacity building. Sections three through five present the main issues we learned from our conversations with aid recipients and US aid professionals in recipient countries. We close by presenting ideas for reform voiced at our Washington discussion with policymakers.

1. Capacity and country ownership

Sixty years of foreign aid efforts have shown that donors cannot fix the problems of poor people by themselves, no matter how well donors think they understand development. Donor-imposed solutions are often wrong for the context. Even when they're right, successes aren't maintained without commitments by governments or citizens, or by both.

Oxfam America believes that, in most cases, foreign aid plays only a small role in a country's development. A country's sources of growth—how that growth is distributed (or not) among its people, the provision of basic services and security, the state of human rights and justice, and the rules needed for a functioning market economy and democratic political system—are first and foremost a function of the relationship between citizens and their government. How a government supports and responds to the needs of its citizens and how citizens engage with and hold their governments accountable are at the core of development (see Figure 1). Likewise, the breakdown (or absence) of this compact—where governments aren't the least bit focused on economic development or the welfare of citizens—explains much of the stagnation and dire social conditions in many poor countries.

Figure 1. The government-citizen compact is key to development



Aid cannot forge a compact between citizens and their government, but the way donors deliver aid can strengthen or weaken that compact. In the wrong direction, generous aid given blindly to ill-intentioned elites may lower incentives to raise domestic taxes, pursue public investments in development, and improve electoral accountability. Yet at its best, where governments are committed to development, aid can help strengthen the government-citizen compact by helping improve public accountability, complement government spending on much-needed public goods, and support citizen efforts to hold their governments accountable.²

To help foreign aid strengthen the government-citizen compact, Oxfam is calling for reforms that let countries know what donors are doing (information), support countries' own efforts to manage development (capacity), and better respond to country priorities (control), as illustrated in Figure 2. Implicitly, our definition of countries refers to both citizens and governments in those countries.

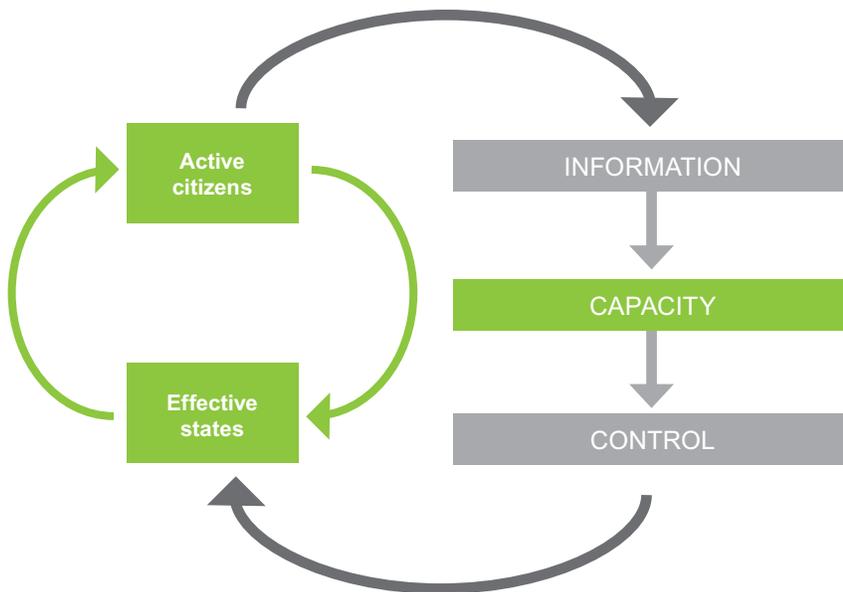


Figure 2. Donors can help strengthen the government-citizen compact

Because development ultimately is about effective governments and active citizens, at minimum donors should support some basic elements on both sides of the compact. This is as true in countries with effective governments as it is in weak states, though the opportunities and constraints for how donors support capacity building vary tremendously across these different contexts (see Box 1). What exactly donors should support within the broad rubric of capacity building should reflect the opportunities for change in each case: the local demand and commitment for capacity building and when support from the US is more likely to make a difference.

Box 1. The ownership challenge in weak states³

“Weak states” are those unable to perform the primary functions of protecting their citizens, providing basic services, and responding to the needs of their citizens. The weakness of these governments is a contributing or complicating factor for so many of the crises that confront donors. Naturally, in situations where recipient governments are unable or unwilling to respond to their citizens’ needs, donors stepping in to provide humanitarian or development assistance tend to bypass the governments. Thus, instead of helping governments do their jobs, donors provide aid directly to citizens or civil society groups. Doing so raises a major dilemma for donors: While this direct assistance saves lives, how does it support or undermine a government’s ability to provide for its own citizens when donors leave?

In countries like Afghanistan, Mozambique, and Timor-Leste, a key measure of success is whether donor activities can transition from substituting for the failures of recipient governments to enabling recipient governments to be successful doing their jobs when those governments eventually step up to the plate. The risks for donors in weak-state contexts is doubtless higher than investing in more stable countries, but the payoffs are higher too. By helping governments provide basic services, maintain security, manage the economy, and perform the other basic functions of a state, donors can help governments, at least important elements of the government, turn the page to more stable and developmental chapters.

In practice, donor support for capacity building for governments may include an array of efforts (again, depending on the demand and commitment by political leaders in countries), including the capacities to:

- Undertake basic development planning, budgeting, management, and financing.
- Develop and manage government systems that are transparent and accountable across branches of government and to citizens.
- Have institutions of checks and balances, such as parliamentary oversight, auditing agencies, anticorruption agencies, and ombudsman offices.
- Provide basic public goods, including health, education, sanitation, roads, security, and basic agricultural research.
- Develop and implement the rules needed for a functioning market economy and democratic political systems.

On the side of citizens, donors can help strengthen the capacity of civil society to hold their governments accountable by supporting:

- Watchdog and budget-monitoring groups
- Policy advocacy groups and coalitions
- Civic education efforts

The ultimate goal of supporting capacity building in countries receiving aid should be to help countries reduce poverty and promote development without the support of aid. It is up to people in governments and civil society in recipient countries to commit to investing in their human capital, organizations, and institutions. Donors at best can only support these local efforts; they cannot invent or replace them. How well is the US doing against this standard?

2. Aid for capacity building: How the US is doing

Capacity building in this brief refers to technical assistance, technical cooperation, and projects with the specific objective of building capacity, as well as other projects and programs not specifically designed as capacity building but that arguably will have a capacity building spillover effect.

Quantifying exactly how much the US provides for capacity building is extremely difficult. Most US aid projects and programs have some element of capacity building: a health project may be accompanied by capacity building for district-level health clinics, an economic growth program may include training for particular communities to learn how to profit from ecotourism, and a democracy and governance project may be entirely about training to provide the skills for women to enter the formal job market. Perhaps precisely because of the nature of efforts to promote capacity building, the US doesn't track how much aid it provides exclusively for capacity building—nor, for that matter, does the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). What we do know is that the US, the world's largest bilateral donor in absolute terms, provides about 18 percent of its official development assistance (ODA) as technical cooperation (a far underestimate for capacity building).⁴

The US has a long history of capacity building efforts in developing countries. US support for agricultural research and development through the early 1980s, for instance, is still paying off in a number of developing countries. Hundreds of agronomists trained in US universities are leaders in agricultural policy and research in their countries, while countless agronomy universities and programs across Africa, Asia, and Latin America still benefit from ties long established with US land-grant universities.

Across the countries we visited, we also saw the following results of US aid for strengthening capacity:

- The Centers for Disease Control and Prevention's Field Epidemiology and Laboratory Training Program supported the training of dozens of Ethiopians, Kenyans, and Rwandans, who use these skills in managing their country's health surveillance programs. This training means they're better prepared to detect and contain deadly disease outbreaks.

- USAID funded an NGO in Kenya that developed a bribery index that actually led several government agencies to take concrete measures toward reforms.
- USAID supported a legal resource center in Cambodia that educates communities and the government on legal matters. Among other services, the center provides legal and general representation to hundreds of families that have been illegally evicted from their homes and land or who are being threatened with such eviction.
- In Afghanistan, the US joined other donors in helping strengthen 22,000 community development councils as part of the National Solidarity Program. In this case, US aid is helping to develop the ability of Afghan communities to identify, plan, manage, and monitor their own development projects. These abilities are as important as the funding itself.

But for all these examples of success, we heard over and over from recipients that limitations inherent in *how* the US provides aid for capacity building reduce the ability of US foreign aid to build lasting, sustainable capacity that is of use to recipients. In particular:

1. The US tends to be too supply driven in its support of capacity building.

Often what the US funds reflects the capacities and constraints of the US assistance delivery system rather than the support people across civil society and governments really need.

2. USAID tends to overrely on a contractor model that's associated with rigid contracts, skewed accountability, high costs, and missed opportunities to support more local actors.

3. The US tends to underutilize country systems. By working outside country systems, USAID misses opportunities for countries to learn by doing.

The following three sections consider each one of these shortcomings in detail.

3. Too supply driven: Providing what we have, not what they need

From Afghanistan to Rwanda, interviewees stressed that too often the US falls short of providing what recipients need, blurs the distinction between conducting workshops and helping build expertise, and is unrealistic in its expected outcomes.

Recipients know best what they need

Across civil society and governments, we heard that too often the US provides funding for capacity building in ways that aren't precisely what the recipients need.

- In **Afghanistan**, USAID placed 21 technical experts in the Central Bank without first assessing the gaps those experts would fill. Once the Central Bank governor reviewed the resumes of the USAID-appointed experts, he dismissed all but the few whose skills were actually needed in the bank.
- In **Kenya**, a Ministry of Health official noted, “The US does a lot of trainings for health workers and services—but higher-level training has not been incorporated yet. Other donors, like the UK, offer training for management or whatever other technical support we need.”
- In **Ethiopia**, the US provided more than 90 percent of its aid in the form of humanitarian food assistance in fiscal year 2009, when Ethiopians would have preferred to have had more support in improving the ability of communities to assess their vulnerabilities and manage the risks posed by recurring droughts. As described by a local development NGO official: “We need direct investments to agriculture itself. Spending \$1 billion in food security but then spending only \$4 million in agriculture development is just wrong, and this is what the US currently does in Ethiopia.”

Another workshop

Interviewees repeatedly mentioned that donors, especially the US, tend to equate conducting workshops with investing in the development of local expertise. Although trainings and workshops may benefit some individuals and organizations, alone they do little to improve the functioning of a responsive government and active citizenry.

- As we heard in **Liberia**: “Capacity building does not mean adding a training course in a ministry. If you add a course, you teach them English and computers. Afterwards they’ll go out and find a job elsewhere. Capacity building is about enabling that institution to pay decent salaries to keep qualified people in-house.”
- In **Kenya**, a major US contactor supporting local NGOs was described as using a one-size-fits-all approach through its standardized workshops. Some newer groups welcomed the training on fundraising, budgeting, and planning. In contrast, more-experienced groups resented having to sit through what they perceived to be rudimentary workshops.

Learning takes time

Capacity building takes time. Yet US support for capacity building, like most of US aid, rarely commits for the long run.

- In **Rwanda**, despite some formidable contributions by USAID for improving the capacity of Rwandans to decentralize health care through a five-year project, even US implementers were concerned that the project wasn’t long enough to build the systems that will sustain these investments in the future. Other donors support decentralization through a common fund. This fund isn’t perfect, but it works directly through the Rwandan government (subject to performance and accountability measures) and allows Rwandans to invest in several sectors and over many years.
- Also in **Rwanda**, an official with the Ministry of Health noted that US training can be too short-term. “We would prefer continuous medical education. In light of the way the HIV/AIDS epidemic is developing, our health workforce will need to skill up [*sic*] since treating the epidemic will become more complicated. We need to be thinking long term about capacity building or else the need will outstrip capacity to an even greater extent.”
- In **Cambodia**, a civil society leader lamented the loss of US support for longer-term training, noting that many key civil society advocates and government officials had in past years benefited from US scholarships for graduate legal training in the US.

4. The overreliance on intermediaries

The people we interviewed repeatedly referred to the challenges of working with the US “contractor model” of providing aid. By “contractor model,” interviewees implied the system of providing aid through intermediaries—from large profit-making contractors to relatively smaller nonprofit organizations—instead of directly from USAID to recipients (see Box 2).

It wasn’t about blaming contractors and NGOs per se—many are excellent and bring years of experience and much-needed expertise to development activities. Instead, interviewees expressed qualms with the model itself. The long chain of command from the donor-contractor-subcontractor-final recipient tends to be associated with rigid contracts, skewed accountability, high costs, and missed opportunities to support more local actors.

USAID didn’t always operate this way. Prior to the mid-1990s, USAID engaged directly with grantees in defining their agenda and providing services. Changes came about in the early 1990s as budget cuts forced economizing within USAID. As a result, USAID cut back in-house staff and scaled up the use of contractors to do everything from developing projects to implementation and evaluation. By 2008, USAID had a staff of 2,200, compared with a staff of 4,058 in 1980.⁵ According to former USAID officials, the decreasing capacity at USAID “has transformed USAID from a creative, proactive, and technically skilled organization focused on implementation to a contracting and grant-making agency. This, in turn, has translated into less policy coherence, reduced flexibility, diminished leverage with other donors, and an increasingly risk-averse bureaucracy.”

Box 2. Why the US has the contractor model

Inflexible contracts

Layers of subcontracting reduce the flexibility of programs to respond to needs. Donors (and sometimes implementers) design programs and measurements of success that are codified into a “contract” that is negotiated with an intermediary, which sometimes further subcontracts with other intermediaries. Problems emerge when one of two things happen: the original project design is flawed in some way or, more commonly, the recipient faces an entirely new and unanticipated challenge or opportunity that calls for a particular intervention not outlined in the contract.

In **Cambodia**, USAID-funded civil society organizations noted how the long chain of command from USAID to contractors to subcontractors makes it nearly impossible to make even small budgeting changes, thus destroying all creativity and flexibility that local organizations can have.

Skewed accountability

Another challenge of the “contractor model” is the break in accountability it introduces between the donor and recipients. This break happens because intermediaries are ultimately accountable to the donor agency, not the recipient.

- In **Liberia**, government officials note how contractors are bound by and responsive to their contracting arrangement with USAID or other US government agencies, not by what the government necessarily needs. “Contractors have a huge incentive to deliver today, rather than building up systems for tomorrow.”
- In **Afghanistan**, government officials see US consultants as “controlled by their contractors,” having little flexibility to change the scope of their work as new needs and opportunities emerge within ministries.
- In **Rwanda**, a government official noted how helpful it would be if the Rwandan government could track what the US government was financing to see whether the US was indeed attaining its intended objectives. “The current arrangement [with intermediaries] does not permit us to know what is going on because the US signs with the NGOs, and we, as the government of Rwanda, cannot enforce those NGOs to disclose what they’re doing and with how much funding.”

Costly

The additional layers bring with them additional costs. At times these additional costs are justifiable, as when the intermediaries contribute a unique skill set or scale of operation without which the project wouldn’t function. But too often, the additional costs are difficult to understand. Even US Secretary of State Hillary Clinton has noted: “We have contracted out too much of the core mission of USAID. It doesn’t mean that the contractors are bad people or doing a bad job; it just means that we’re not getting the kind of resources into the delivery of services abroad that we should. Too much of the money stays right here in Washington.”⁶

- In **Liberia**, a US consultant costs the government of Liberia anywhere from 60 percent more to twice as much as a comparable consultant through other donors.
- In **Ethiopia**, health professionals note that 30 to 40 percent of aid for capacity building on HIV/AIDS stays with US organizations providing technical assistance.
- In **Afghanistan**, a former official of the Central Bank explained how USAID offered to help the bank build regional branches. The contractor had first said each branch would cost \$130,000, which then increased to \$170,000 and then again to \$630,000 per branch. That cost included \$290,000 per branch for the contractor’s logistics, \$250,000 for subcontracting costs, and the rest for the actual building. The Central Bank in the end refused USAID’s offer and built the branches with its own funds—for \$85,000 a branch.

Missed opportunities to build local capacity

The overreliance on US contractors and NGOs also has an opportunity cost: not helping to support the development of regional and local contractors and NGOs that could take on many of the same projects. No doubt in some cases US contractors or NGOs may be the best suited for the job, but in many cases, local consultants, organizations, and NGOs could perhaps take on some of this role and, in the process, further strengthen their own abilities to train and guide reformers and activists.

- In **Kenya**, an official working with the malaria control program explained that the Ministry of Health program for indoor residual spraying trains teams within districts to do the spraying and the evaluation. In contrast, the US does indoor residual spraying by getting US organizations to come in; they manage the process and do the spraying, and then they leave. The spraying was done, but what's left behind? According to this official, not much and the official said, "Kenyans aren't any better prepared to do it themselves next time."
- In **Liberia**, the US implemented the Governance and Economic Management Assistance Program (GEMAP) to help build the capacity of the Liberian government to manage its own fiscal resources. The program placed international advisers across key ministries and agencies that shared co-signing authority with a Liberian adviser. While recognizing that GEMAP served as an effective stopgap, officials noted that it focused too much on top-down checks on spending instead of building the government's ability to manage its own resources.

5. The fear of country systems

Another recurring observation across our interviews was how little the US uses recipient country systems to manage assistance funds. While the US spends millions every year attempting to build country systems to internationally accepted standards, the US rarely uses these systems to distribute aid. In fact, according to the OECD, the US ranks among the lowest donors in terms of share of ODA provided to countries via their public financial management system or procurement systems.⁷ By not using country systems, the US often makes it more difficult for a government to “learn by doing,” while in the process draining talent from the public sector and incurring relatively more expensive procurement.

The OECD uses the term *country systems* to refer to the public financial management systems, procurement systems, auditing systems, development statistics, and monitoring and evaluation tools of recipients. This paper uses the term *country systems* to refer more broadly to these systems and others through which ministries and government agencies do their jobs. For example, the application of country systems can go beyond whether a donor uses a given recipient country’s procurement system to obtain HIV/AIDS testing kits, but also how that donor helps health technicians in the health ministry to assess the distribution and utilization of those kits.

Of course, Oxfam does not recommend that donors use country systems blindly. Even the Paris Declaration on Aid Effectiveness states that donors should use country systems, provided “assurance that aid will be used for agreed purposes.” The art for donors is knowing how to manage risk, not how to avoid it altogether. Even in countries that are seen as very corrupt, like Afghanistan, some ministries actually have a good track record for financial accountability.⁸ There and elsewhere, donors can manage risks by rewarding successful efforts by country governments to improve these systems, continually assessing the reliability of these systems, and supporting fiscal agents to monitor these systems.

Learning by doing

Perhaps the strongest argument for using country systems is that of supporting capacity by letting countries “learn by doing.” Donors come and go, but governments (good or bad) remain. Working with country systems may ultimately leave behind more capacity to deliver development outcomes, even when doing so means donors may do less, and deliver less over a longer period of time.

- In **Kenya**, at the National AIDS Control Council, we heard: “We need to work through government systems because at the end of the day, it is the government who has responsibility over the health of its citizens, not civil society, not a development partner. ... PEPFAR [the President’s Emergency Plan for AIDS Relief] is very interested in having very strong systems before they can commit themselves to using these systems. But these systems do not come from the moon. Instead of bringing in a parallel system, what would help is to look at the system that [countries] have and work with them to strengthen it so that it can deliver quality services.”
- In **Liberia**, an official with the Ministry of Planning and Economic Affairs noted: “Donors should start focusing on what the host country wants to do. If they have ownership and support, I think sustainability will come into place. But if you put a hand pump and leave, the people will come and expect you to put another one when that one breaks, and dependency continues.”

Drains talent from the public sector

As donors set up their own structures for delivering aid in countries, they often draw the best and brightest away from the public sector. This means that some of the very people in the recipient government who could best apply donor support in improving their country’s programs and systems end up working for donors instead.

- In **Kenya**, an official in the Ministry of Health noted that PEPFAR draws qualified staff away from the government by paying them three times as much as the government can pay.
- In **Afghanistan**, we heard how a capacity development program provided management training for an official in the Ministry of Rural Rehabilitation and Development. This same official then left the ministry to work for an international partner.

More-expensive procurement practices

Donors often don’t have a choice but to use their own procurement systems—those in place in recipient countries may simply be too dysfunctional and corrupt. But here, too, the US tends to be significantly more risk-averse than other major donors. In many places, other donors have assessed that the benefits from using country procurement systems, with legitimate accountability mechanisms, outweigh the risks. One major advantage of using reliable country procurement systems is their lower costs.

- In **Kenya**, while other donors use the procurement system set up through the Global Fund to Fight AIDS, Tuberculosis and Malaria, the US uses its own procurement for HIV/AIDS test kits and antiretroviral drugs. As a result, the US pays about four times as much as the Global Fund for these purchases.

The Obama administration has now given strong signals that the US will increase its use of country systems. In particular, USAID has announced major implementation and procurement reforms designed to “deliver assistance differently” (see Box 3).⁹

**Box 3. Welcome signs:
USAID's implementation
and procurement reforms**

USAID is pursuing a bold strategy for reforming its implementation and procurement systems as a way of embodying the ownership principles of the Paris Declaration on Aid Effectiveness. Among other objectives, the agency is proposing to:

- enhance support to improving country public financial management and procurement systems;
- develop a way of assessing the reliability of country systems to help guide how much aid the US should provide through these systems;
- increase the use of country systems that meet certain minimum criteria; and
- more effectively strengthen local capacity by fostering a direct relationship between USAID and local civil society and private organizations.

No paradigm shift is easy, of course. USAID has presented its vision. Now it's up to the Obama administration, Congress, others in the foreign aid community, and citizens to support this vision and back much-needed legislative reforms that will let USAID do its job better.

6. Reforms in the right direction

Through our field research, Oxfam America has seen firsthand some of the striking ways in which US support has helped governments do their jobs better and helped citizen groups hold their governments accountable. We also have learned about many of the shortcomings of US support for capacity building: how the US foreign aid system tends to be too supply driven, overrelies on the contractor model, and underutilizes country systems.

What reforms could help US aid for capacity building overcome these shortcomings? To answer this question, Oxfam convened a discussion in Washington, DC, in March 2010 with 35 representatives from several US agencies, Congress, policy think tanks, contractors, and NGOs, as well as voices from recipient countries. Insights and recommendations from this discussion are reviewed in the following sections.

What reforms would allow the US to be more demand-driven in its capacity-building efforts?

Discussion participants noted the consensus emerging in Washington on the importance of US foreign aid being more country-led. This consensus figures prominently in the debates on Presidential Study Directive 7 and the Quadrennial Diplomacy and Development Review as well as on the guiding documents for Feed the Future and the Global Health Initiative. The real challenge in Washington, then, is not finding consensus on the need for ownership-based reform, but rather finding consensus on how to move the reform agenda forward. Participants offered the following ideas in this direction:

- **Define why the US provides aid for capacity building.** Participants stressed the lack of clearly defined mission, goals, policy, and strategy for what the US should aim to accomplish through aid for capacity building. So even before discussing *how* the US provides that aid, a first question should be *why* the US provides it in the first place. As explained by a participant, “It’s not the number of pills that people need to swallow, or the number of people who need to get trained, but answering what difference are we trying to make?”
- **Ensure that priorities for capacity building are country led.** Participants noted that the agenda for US foreign aid often reflects, at best, US understanding of country priorities, rather than the actual priorities of recipients. Consultations among stakeholders in countries could help recipients arrive at some consensus on how aid could support their efforts to improve certain aspects of governance

(from the side of government) and advocacy (from the side of civil society). Donors would then focus on these priorities. For US aid professionals on the ground, this process implies having more flexibility to respond to what they learn through this engagement instead of solely responding to directives from Washington.

- **Support both the capacity of governments to be responsive to citizens and the capacity of citizens to hold their governments accountable.** Participants reiterated Oxfam’s basic premise that a donor mandate to respond to country priorities (to be “country-led”) means donors must answer to both governments and citizens. The challenge, of course, is when government priorities don’t necessarily reflect those of citizens. Such discrepancies in priorities are particularly likely to occur when it comes to supporting citizens to keep their governments in check, even (or perhaps especially) when governments want to restrict how donors support civil society in their countries. It also means investing in the capacity of a government to effectively meet citizens’ demands.
- **Support homegrown citizen groups.** Sometimes the best ways of supporting democracy and governance may be in programs beyond those strictly defined as democracy and governance. Programs that are well grounded in direct economic and commercial interests—such as business associations, rural electric cooperatives, community forests, or school-based parent-teacher associations—all facilitate collective management of shared interests, while also fostering local networks and abilities that can serve communities more broadly in their development efforts.
- **Support citizen groups for the long run.** Although some participants suggested that civil society groups in countries need to self-finance, one leading expert noted that that’s the wrong agenda for donors because the model of civil society being independently funded to challenge its government is “an American thing,” a model that doesn’t exist even in many other wealthy nations. As he explained, donors have a “mythical model” that civil society can itself compensate for a country’s weak rule of law and forms of political balance and representation. Instead, supporting civil society is “a transitional phase of development which we invest in for 20 or 40 or 60 years, and then they may get to a point where they don’t need 10,000 NGOs watching every little thing that the government does with the budget.”
- **Be patient in evaluating results.** US government development professionals are under pressure to produce immediate results, even when the “results” in capacity building may take years to come to fruition. As expressed by a participant, “Let’s hope that someday we can start having those kinds of relationships that will endure for a decade or more, because that is where you get the return.”

How can the US overcome the constraints associated with an overreliance on intermediaries?

Participants repeatedly noted that the problem isn’t whether the US uses intermediaries but how the US contractor model is set up. Participants shared some initial thoughts on specific changes that would need to happen at the level of field missions to allow the missions to better reach out to people in countries, assess the opportunities and risks for providing support for capacity building in different ways, and permit long-term engagement that is needed for much of the institution building that’s key to development:

- **Ensure that missions have the ability to identify change agents.** Ideally, donors would invest in staff with the mandate and expertise to carry on a policy dialogue with stakeholders in countries. As recalled by a participant from USAID, one of the advantages of the agency's country strategies of the early 1990s was that they helped identify legitimate representatives and change agents for government and civil society. So if a particular government program was working well, the program officer could actually talk to the locals in the program, identify the change agents, and build those relationships.
- **Allow the missions to take some level of risk.** Being more country-led for any donor implies having some tolerance for risk. The US government, however, can be excessively risk-averse when making development investments. It needs to have the mandate and tools to manage risks in different contexts. Participants once again stressed the need for US government agencies operating in countries to invest in getting to know people in ministries, local NGOs, and other local organizations to assess which risks are worth taking.
- **Make local contracting easier.** USAID, in principle, rewards proposals that partner with local organizations. In practice, however, USAID officers often find it difficult to contract locally because of explicit and implicit constraints imposed by US legislation and guidelines. One example was given of the USAID Kenya mission wanting to fund a competent partner and having "to get all kinds of political blessings to be able to just go straight to the Kenyan people with this grant." Another example was of USAID South Africa striving to program its funds through the country budget but being held back by US federal procurement procedures and legislation.

How can the US better support country systems?

Participants agreed that donors can capitalize on governments "learning by doing" by using country systems when appropriate. When governments are committed to improving their public financial management systems, procurement systems, and overall planning and delivery of public services, donor support can go a long way in building the capacity of individuals and institutions that make these systems work. Suggestions from participants included:

- **Support budgeting capacity.** The single most authoritative statement of a country's priorities is not necessarily a national development plan but rather a country's budget—how the government actually spends public funds across a set of objectives, sectors, and regions. Participants therefore stressed that donors should focus more on supporting governments at all levels to better allocate and spend money. This support would look different across different contexts: In a post-conflict country, the government may prioritize something as simple as making payroll every two weeks to avoid riots; in another country, a government may be grappling with a complex strategy passed by the parliament.

- **Unbundle the use of country systems.** Participants noted that donors often refuse to use public finance systems in recipient countries because assessments point to the potentially “high risks” of doing so. They suggested that donors unbundle country systems into discrete pieces. This way donors could assess the risks associated with using certain parts of the system relative to using other parts, instead of facing a binary decision of whether or not to use country systems altogether. Unbundling country systems could also help countries and donors identify gaps in capacity and determine where to tailor support to reinforce and expand good practice.
- **Coordinate support to governments with other donors.** Too many donors with too many projects always raise the challenge of the recipient government’s absorptive capacity. A participant shared the experience of Ghana’s Ministry of Finance: the ministry had perhaps five people who were capable of managing a major reform, yet the World Bank challenged the ministry to implement a financial management information system, the UK Department for International Development asked it to improve their personnel management information, and another donor requested a medium-term expenditure framework. Donors should focus on one set of priorities at a time, ideally defined by the government.

A major lesson for the US from 60 years of foreign aid should be that donors do not always correctly understand what countries need in terms of the know-how appropriate to their context and development challenges. People in countries receiving aid know their own strengths and weaknesses—the history, politics, and the ethnic tensions underlying many of the ongoing development challenges they face every day. They also know their potential for change: which political leaders and agencies may be more committed to reform than others, which opportunities may be emerging for citizens to better keep their governments in check, and how donors can best support a constructive relationship between governments and citizens.

What does this mean for US foreign aid reform right now? The US aid system needs to be more demand-driven, less risk-averse, and certainly more nimble in its understanding of the constraints and opportunities with which the US is operating in each country. By moving in this direction, US foreign aid can better support the efforts of citizens and governments to improve their prospects for development, whether through a more transparent budget process, a more qualified ministry of agriculture or local government planning office, a better prepared watchdog group, or a more informed citizen.



COVER: At a rice cooperative in the Cambodian village of Takom, Dy Yong keeps the books for a rice bank so that everyone can see how it's run and maintained. Members of the committee that oversee the rice bank introduce villagers to its principles, which can help ensure their own food security. *Jim Holmes / Oxfam*

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