Local Capacity Development
Suggested Approaches

An Additional Help Document for ADS 201

Table of Contents

I. Overview:

USAID strongly emphasizes the importance of capacity development to improve development results by increasing local ownership, sustainability, and partnerships with other local organizations, donors, the public sector, and other stakeholders. This Additional Help document describes some important considerations that apply to capacity and should assist staff to more effectively strengthen local capacity: system dependency, complexity, interrelationships, timeframe, responsiveness to change, local ownership, and measuring through performance improvement.

USAID is committed to creating the conditions whereby countries own, resource, and sustain their development. Achieving and sustaining development results stems from interactions between numerous and diverse actors within partner countries, who are part of a local system. The Agency's Local Systems Framework provides an overview of how to define a system as we strategize, plan, and implement.

USAID invests in developing local capacity where increases in capacity can be expected to contribute importantly to locally-owned and locally-sustained development results. Such investments are expected to yield improved performance, both in collaboration on USAID-supported programming toward mutually-agreed priorities, and in taking increasing responsibility for effective leadership and stewardship of development outcomes.

Capacity development programming therefore ought to consider the functions of broader systems to which targeted individuals and organizations contribute, including encouraging that diverse citizen voices contribute to decision making, that development efforts are monitored, and that learning about development in the local context is fed back to help make local systems more adaptive. Decisions about whether and how to strengthen the capacity of local actors, as well as whether and how to engage those actors in implementing our programs, should derive from the understanding of the local system captured in the project design and updated through ongoing learning in implementation.

USAID uses various approaches for identifying local capacity development needs and implementing these activities. One example is the Human and Institutional Capacity Development (HICD) approach, which is documented in the HICD Handbook. The Handbook presents a detailed, systematic method for external expert diagnosis of capacity development needs and design and implementation of local capacity development (LCD) support. However, HICD is only one of several recommended approaches that USAID employs in its programming; this Additional Help identifies commonalities across recommended approaches.

II. Definitions:

a. *Definition of Capacity Development (CD)* – USAID has no single standard definition of capacity or capacity development. There are several definitions in various Agency guidance documents. Two definitions that many USAID capacity development experts regularly use are listed below.

The definition in *Capacity Development in Practice* is "Capacity is the ability of a human system to perform, sustain itself, and self-renew."

The OECD definition is:

- "Capacity" is the ability of people, organizations and society as a whole to manage their affairs successfully.
- "Capacity development" is understood as the process whereby people, organizations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time.
- "Promotion of capacity development" refers to what outside partners – domestic or foreign – can do to support, facilitate or catalyze capacity development and related change processes.

    b.   *Definition of Local System* – A local system is defined as "those interconnected sets of actors—governments, civil society the private sector, universities, individual citizens and others—that jointly produce a particular development outcome."

III. Capacity Development Considerations

Some of the commonly-accepted characteristics of capacity are more important than the definition of capacity. Capacity, as understood and used by USAID, is understood to be largely intangible, and to be dependent on intra-organizational relationships and relationships among an organization and other actors in the wider local system. Capacity development typically happens in a non-linear way. Regardless of the organizational capabilities that need to be strengthened to improve performance, capacity development should attend to the following seven considerations.

a.   **System dependency.** Even at the organizational level, capacity can only be understood with reference to the wider system that surrounds any organization. Capacity describes how an organization can perform within its context – the system of other actors that an organization affects and is affected by in carrying out its activities. Efforts to strengthen the capacity of an organization must derive from a clear understanding of the roles it currently plays within a local system and the space for its roles and performance to change.

b.   **Complexity.** Capacity is continually emerging and evolving in complex ways, as individuals within an organization, the organization as a whole, and its context change. Change in capacity proceeds in non-linear fashion, and capacity at any point in time is a snapshot of a dynamic reality.

c.   **Interrelationships.** Capacity derives from the quality and breadth of relationships that an organization and its personnel have with others and how those inform the organization's work.

d.   **Timeframe.** Some capacity development interventions can be conducted in relatively short timescales; however, embedding organizational changes in ways that improve performance takes time. This time lag should be accounted for in distinguishing between

the timespan in which activities to support capacity development are conducted, and the timespan in which shifts in organizational performance are expected to become visible.

e. **Responsiveness to change.** Capacity is distinguished from simple task execution by its emphasis on the potential to achieve outcomes as circumstances shift. Although classroom training and technical assistance are commonly used approaches, they may not be the most effective ways to increase learning, adaptation, agility, and resilience. Capacity development should increase the ability to respond appropriately to the unexpected by learning about changes in context and quickly adjusting to them.

f. **Local ownership and capacity development.** An organization's staff and stakeholders tend to understand its capacity best, and they can support or obstruct change in ways that outsiders cannot. Staff and stakeholder perspectives are key to perceiving and measuring the baseline capacity and grounding any plans to support capacity development or organizational change. For this reason, capacity development programming typically takes a facilitation approach, focusing on strengthening interrelationships and commitment, as external efforts cannot usually generate lasting capacity absent internal ownership for change. Leadership and individual commitment to performance improvement is also vital to successful capacity development.

g. **Measuring capacity gains through performance improvements.** Capacity is a form of potential; it is not visible until it is used. Therefore, performance is the key consideration in determining whether capacity has changed. Performance should be monitored at multiple levels, which can include individuals, organizations, and local systems.

IV. USAID Program Cycle:

Capacity development of local organizations should be considered at all stages of the program cycle.

a. **Strategy Considerations.** Local organizations and individuals can have critical knowledge and understanding of the context, including awareness of informal systems and rules, social capital and credibility of other stakeholders, and political and sociocultural constraints and skills. Full engagement with these stakeholders in strategy development can improve the relevance and feasibility of USAID strategies; focus and quality of program approaches, and the likelihood of local ownership and sustainability.

USAID policy encourages staff to include local organizations and host government partners in informing the strategic directions of USAID programming, consistent with our commitments under the international aid effectiveness agreements and as a part of effective strategy design. Country strategies should consider the relationships between civil society, the private sector, and national and subnational governments. Building partnerships and relationships, and developing the capacity of local partners, can be included as intermediate results toward achievement of development objectives. Local capacity is constantly evolving as organizations and individuals enter and leave, grow, and develop through investments with their own resources and those of donors and other funders. Consequently, changes in local capacity should be considered as strategies are revised and new projects and activities or Collaborating, Learning, and Adapting (CLA) plans are developed or revised.

b.   **Project Design Considerations.** As the process by which USAID defines how it will operationalize a result of set of results identified in a CDCS, project design is arguably the most important anchor for considered approaches to local capacity development. The project design frames the broader purpose(s) of the project and links investments in capacity development to the achievement of the project purpose. The project design should describe the local system that is relevant for the particular project purpose (see the Local Systems Framework for more information).

As cited in ADS 201.3.3, "Project design is the process by which USAID defines how it will operationalize a result or set of results in a CDCS or other strategic framework…Consistent with the Program Cylce principles in 201.3.1.2, the project design process recognizes that development seeks to influence complex systems and requires integrated tactics to achieve higher level results and sustainability of outcomes."

Capacity development of local actors should support the achievement of the Project Purpose. The project should have a robust theory of change regarding how CD is expected to be carried out, to be adjusted throughout programming, and to connect CD approaches that the project will undertake to expected performance changes by individuals and organizations, and ultimately to achieving and sustaining development impact.

The Project Appraisal Document (PAD) documents the way in which CD is integrated into the project, including relevant aspects of required analyses and relevant assumptions, the indicators and approaches to be used to monitor progress in CD, and the plan to evaluate CD as an aspect of overall project evaluation.

USAID staff and partners need to understand the social, political, and economic context in addition to having technical area skills[1]. Capacity development can be more effectively integrated into project and activity design by:

- Emphasizing outreach to a range of organizations from the well-established to the newly-emerging, deliberately emphasizing sector development as opposed to organizational development.

- Supporting leading organizations to take responsibility for coordinating efforts to articulate a shared vision for their sub-sector by mentoring other organizations, facilitating policy dialogue, establishing or contributing to

---

[1] SNV's *Capacity Development in Practice* ("Linking the local and the international sounds well and good, but in practice it is a highly complex process. The authors argue that the multi-actor dynamics in capacity development have been underexposed. Capacity is now all about collaboration and creating new solutions, and thus also about power, politics and interests.") For more information on political economy analysis, see https://usaidlearninglab.org/library/applied-political-economy-analysis-field-guide
.

learning networks, and serving as backbone organizations promoting broader efforts at collective impact.

- Encouraging local stakeholders to play key roles in sector assessments, outcome monitoring, and policy analysis, not limiting them to carrying out service delivery or advocacy based on USAID-defined requirements.

- Planning for "ensuring inclusive, meaningful, and consistent engagement with key local actors throughout the project design and/or implementation process…" (ADS 201.3.3.12).

c. **Implementation Considerations.** In considering implementation through local partners (either directly or via subawards), consider both the ability to produce the desired outcomes and the ability to grow and adapt over time. In general, capacity development of local organizations is often centered on one or more of the following areas:
  - improvement of services provided by such organizations,
  - customer/client feedback mechanisms (to ensure a public focus rather than a donor focus),
  - advocacy and policy development, analytic and adaptive abilities,
  - sustainability,
  - strengthened management capacities and internal systems, or
  - visioning and leadership.

Capacity development should be informed by the local system within which organizations as embedded, and should support improvements both in an organization's accomplishing tasks effectively and efficiently as well as their achievement of relevance and sustainability.

The HICD Handbook provides guidance on how external actors can engage comprehensively with a partner organization to diagnose needs and support its efforts to improve performance. This handbook also identifies some important prerequisites for success: 1) commitment of the organization, 2) ability to change, 3) stable leadership; 4) alignment between the partner organization's objectives and USAID's; and 5) sustainability of the organization after USAID assistance. These are all subjective judgments, but are important considerations in selecting partners for capacity development support.

USAID also developed a tool to facilitate an organization's self-assessment of its own capacity development needs and priorities – the Organizational Capacity Assessment (OCA).   The OCA is generally used after a local organization receives a direct or indirect award, but it could also be used in designing an activity. The OCA is not an evaluation or audit by USAID or a judgment on the likelihood of receiving additional funding. USAID staff or other partners facilitatethe process, the particular value of the OCA, stems from the local organization's ownership of the process and findings. The main purpose is to empower the organization to generate an action plan for its own priorities for capacity development and to secure strong commitments to carry out the

identified actions, and so it should be flexibly tailored to the partner organization's interests and structure. Online training on the uses and facilitation of the OCA is available to Agency staff through USAID University and to external partners through Learning Lab.

Adaptive management is important to encouraging effective capacity development and its translation into performance improvement. Adaptiveness is more than flexibility; it implies being able to adjust to new insights and changing circumstances. Adaptiveness requires intentional probing and testing to update understandings of what is or is not working – a focus on learning – as well as a structure for reflection on learning and decision-making, and then the effort and incentives to make adjustments based on those decisions.

d.   **Distinguishing Capacity Development from Risk Mitigation.** Risk assessment entails external reviews of an organization's processes and functions to gauge the level of risk to USAID associated with partnering to achieve particular outcomes. Risk mitigation is the subsequent series of steps required of the partner to reduce risk levels or otherwise manage identified risks.

While there is a relationship between an organization improving its capacity and an organization becoming less risky as a potential partner, reductions in risk and improvements in organizational capacity are not the same. Because risk is filtered through the lens of the USAID relationship, it attends to risks in partnering with an organization for a specific, short-term purpose, and is therefore strongly biased toward fiduciary concerns and short-term results. Risk assessment does not address how an organization can best improve its performance, and risk mitigation steps are requirements imposed by USAID within the terms of a specific relationship. Therefore, it is not appropriate to substitute a risk assessment for a measurement of holistic organizational capacity or its expression, nor is it appropriate to substitute a risk mitigation plan for a capacity development plan

V.   Local Capacity and the Development Context:

Overview. Before investing in local capacity development, it is important to consider the broader environment and how it can affect achievement of desired purposes of a project or activity. Local organizations can play a key role in informing the design, implementation, and monitoring and evaluation of USAID activities. The Agency recommends use of a Local Capacity Development Mapping Tool to gain an understanding of the development context; online training in LCD Mapping is available in USAID University. An online training module is available to inform potential users of this tool.

The context will often be described in terms of a local system relevant to a given project. One way to describe a local system is in terms of the "5 Rs" – around a given result, what are the roles of actors, relationships between them, resources they access, and rules that structure their interactions? More information can be found in the Program Cycle Technical Note "The 5Rs Framework in the Program Cycle."

When considering capacity development, there are four dimensions of the context that are of particular importance:

a.   **Enabling Environment.** The effectiveness of CD depends on the ability of USAID and its partners to understand the regional, sub-regional, national, local, and sectoral context in which civil society and private sector organizations operate and how this context enables or constrains roles and performance. The enabling environment includes the overall macroeconomic, political, and social context as well as specific policies and regulations that affect local organizations and the local private sector. Some important examples include the existence and enforcement of laws on NGO and business registration, charitable contributions and non-profits, and licensing of commercial activities and media operations. However, informal practices and social norms also affect the space for local organizations, the types of activities they can undertake, and their cost structures and effectiveness. Examples can include identity roles in politics, degree of corruption, government decision making, and treatment of critical viewpoints. Relevant aspects of the enabling environment should be identified or analyzed in planning, implementing, and monitoring and evaluation of CD activities. USAID has identified some useful resources for assessing the enabling environment.

In many countries where USAID operates, the enabling environment for civil society organizations and individual liberties has become more restrictive in recent years. Some common strategies that have been used to restrict the political space for civil society organization (CSOs) include blocking registration or access to foreign funding; burdensome reporting requirements; government-controlled media messages that de-legitimize CSOs; requirements that CSOs align their activities with national development plans; and creation of government-organized NGOs (GONGOs). In some countries, the threats are more dangerous and include attacks on the physical and digital security of CSOs and individual activists.

In those operating environments that have become more restrictive, capacity development efforts should be flexible and support partners in achieving compliance with new rules and requirements. Efforts to foster peer connections and networks, support for CSO self-regulation efforts to bolster their transparency and credibility, and support for civil society to be more digitally and personally secure can all serve both to strengthen capacity and to mitigate the harm of restrictions on the sector.

Local organizations are often more affected by changes in the national and subnational enabling environment than international organizations because they are legally based in the country, often do not have multiple offices or revenue streams, and the majority of their staff are usually local citizens. USAID may need to use its influence in dialogues with partner governments and other donors to safeguard the operating space for local organizations to be effective partners.

In all operating environments, USAID should safeguard the space for civil society as a development actor, and capacity development efforts that address civil society should

9

contribute to this effort. Monitoring and tracking the enabling environment is a useful long-term task, and connecting civil society to government when conditions are open can help build trust that makes both more effective, as well as shoring up support for civil society. Further, where civil society is contributing to development results, highlighting their contribution can be useful. And support for domestic or community philanthropy both helps to sustain civil society efforts and provide a bulwark against many restrictive laws or policies.

b.   **Networks/Associations and Sector Relationships.** Consider capacity at the level of broader systems by gathering information on networks, associations, or umbrella organizations. In planning CD activities, consider the relationship of the targeted local organizations with these external groups. Networks or associations can be important partners in delivering CD services to their members.

    A notable risk relates to making local organizations or government partners more accountable to USAID than to their local stakeholders. Awards or subawards may create new incentives among local organizations partnered with USAID, in ways that can degrade their sustainability and effectiveness. Organizations may cease cooperating within a sector if they perceive their peers as competing for USAID funding; or they may change their focus to align with available funding rather than be authentically mission-driven. Partner government focus may be on meeting donor demands rather than gauging citizen satisfaction. Perception of local organizations as "arms of USAID" may change their role in local politics. Attention to information flows and collaboration between organizations and from organizations to their constituents can assist USAID to understand these aspects of context and mitigate these risks.

c.   **Advocacy and Representation.** An organization's effectiveness and sustainability can depend on its ability to influence its external environment and advocate positions to power-holders. Consequently, it is important to understand the opportunities for advocacy and representation by local actors, and whether our efforts can support them in these functions. This will depend on the openness of the space for civil society and the private sector in the country; the perceived legitimacy of local organizations by various populations; the freedom and professionalism of the media; the ability of think tanks and research institutions to provide expert analysis; and the willingness of local organizations to adopt public positions on controversial issues and form coalitions.

d.   **Capacity Development Markets.** Most countries already have existing private sector providers of at least some types of CD services. Where possible, USAID should partner with the existing providers and develop their capacity to be sustainable service providers. USAID should also avoid designing activities that undermine existing CD providers by establishing new competing expatriate or local providers offering free or highly subsidized services. In designing CD activities, USAID should inventory the local CD market for the types of services that it expects to support, including the outreach of existing providers (such as NGOs, individual trainers or networks, universities, management consulting or accounting firms, research centers, government agencies, or parastatals), and the market prices, scale, location, and quality of those services. The

LCD Mapping Tool provides guidance for an inventory of existing providers. Additional suggestions for this task can be found in the model used by the Local Capacity Development Fund done by SNV.

VI. Monitoring, Evaluation and Reporting:

Capacity is best measured through an approach encompassing several methods rather than by a single indicator. Guidance on monitoring, evaluation, and reporting on capacity development is available on LearningLab (USAID Recommended Approach for Measuring Organizational Capacity Development). This guidance is applicable for diverse capacity development efforts and different types of organizations.

a. **Planning for Monitoring and Evaluation of Capacity Development.** An important prerequisite for good monitoring and evaluation plans is a good project and activity design with a clear articulation of the role of capacity development in the overall activity and project. This should describe the 1) desired changes at the system level to achieve or sustain development results; 2) targeted changes in organizational performance to contribute to systems change and development results; and 3) capacity development approaches expected to improve performance.

USAID primarily is interested in monitoring whether and how capacity development leads to sustainable, long-term development results. This is probably true for most of USAID's partner organizations as well. Consequently, monitoring and evaluation are most useful when they focus on organizational and local system performance.

When USAID monitors the results of capacity development, it should monitor performance change as the appropriate metric for validating whether capacity has changed in ways that are significant. This has the further benefit of aligning incentives between what USAID monitors and what organizations aim to achieve through the development of their own capacity – neither USAID nor partner organizations seek to develop capacity for its own sake, but rather to better empower their organization to achieve its goals and objectives.

Although USAID's standard indicators are important for Agency reporting, they are not ideal for measuring capacity development or related performance change. As a result, it is important to select or create customized indicators that are more informative on capacity and performance. These indicators can be specified illustratively in solicitation documents or included in an Activity Monitoring, Evaluation and Learning (MEL) Plan or Project MEL Plan developed by partners in conjunction with USAID after an award is made. Any such indicators

should reflect the partner local organization's buy-in, and ideally come from metrics it already uses to gauge its performance.

Performance measurement should address the organization's performance in achieving targeted results and its experience in learning, adapting, and sustaining itself over time in response to its changing context.

One example of a broad performance measurement tool that USAID has adopted is the Organizational Performance Index (OPI) as a recommended tool for measuring performance across multiple domains. The OPI is a composite indicator that includes sub-indices for effectiveness, efficiency, relevance, and sustainability. With either the OPI or similar metrics, a baseline level should be assessed at the beginning of an activity. The OPI or other metrics are then either monitored regularly or at the end of the USAID-funded activity.

An assessment of organizational performance should be complemented by measures of the wider local system, which is defined as the set of actors whose actions and relationships co-produces the development results. Targets for performance improvements should be derived from the activity's theory of change -- how organizational performance improvement is predicted to affect the broader local system. This requires a clear understanding of the roles of the organization in local systems. It is important for USAID and partner organizations to agree on the indicators, targets, and theory of change.

The effects of organizational performance changes on a local system are complex and it is difficult to associate these changes to the support from a single donor. As a result, it is more accurate to describe these effects as contributions rather than attributions. USAID can increase confidence in the estimates of the contribution of performance improvements to system changes by using multiple methods to connect organizational performance and system changes, and by gathering the perspectives of various participants in the local system.

The measurement approach to capacity development should incorporate at least one method of perceiving unexpected changes in performance and validating the pathway of changes in performance. It is often necessary to use deductive approaches that trace the processes after change has happened to assess the relative contributions. Because capacity development is complex, initial theories of change should be updated by validating the pathways of change. Examples of tools for dealing with complexity in monitoring are contained in the Discussion Note on Complexity-Aware Monitoring..

Another important consideration in monitoring and evaluation of capacity and performance is the expected users and uses of the data. Local stakeholders should be part of the intended audience. USAID's Evaluation Policy recommends use of local evaluators where feasible to help strengthen evaluation capacity in partner countries.

b. **Collaborating, Learning, and Adapting in Capacity Development Programming.** USAID supports robust efforts to foster collaboration and learning to inform adaptation of programs, projects, and activities, as well as the business processes that support them. Further information on the Agency's Collaborating, Learning, and Adapting (CLA) approach is incorporated in ADS 201.3.5.19. CLA is particularly important for capacity development, providing a framework of continuous improvement whereby CLA activities and processes encourage reflection on the capacity development approaches that are or are not working, generate learning about the most important types of capacity to improve performance, and inform the adjustments that can improve performance and lead to systemic change. In addition, the abilities to collaborate, to learn, and to adapt are critical capacities for organizations, so CLA is itself a useful description of an important performance area and can assist partners as much as USAID. Many CLA resources are available online.

VII. Additional Resources

a.   CSOSI for E&E and Africa

b.   Discussion Note on Complexity-Aware Monitoring

c.   FSG Understanding the Value of Backbone Organizations to Collective Impact

d.   HICD Handbook

e.   ICNL NGO Law Monitor

f.   LCD Mapping

g.   NUPAS

h.   OCA

i.   OCA Online Training

j.   Organizational Performance Index

k.   Political Economy Analysis guidance

l.   SNV *Capacity Development in Practice*

m.   [SNV Local Capacity Market Facilities](#)

n.   [USAID Evaluation Policy](#)

o.   [USAID Local Systems Framework](#)

p.   [USAID Recommended Approach for Measuring Organizational Capacity Development](#)