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DCD/DAC/GOVNET(2005)5/REV1

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

01-Feb-2006
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English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

DAC Network on Governance

THE CHALLENGE OF CAPACITY DEVELOPMENT:
WORKING TOWARDS GOOD PRACTICE

This DAC Network on Governance (GOVNET) capacity paper is submitted to the DAC for APPROVAL on the 14th February 2006.

It reflects comments and contributions received from DAC delegates on 21st September 2005 and from GOVNET members at the 7th GOVNET meeting on 20-21 October 2005.

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JT00200369

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Why focus on capacity?

Adequate country capacity is one of the critical missing factors in current efforts to meet the Millennium Development Goals (MDGs). Development efforts in many of the poorest countries will fail, even if they are supported with substantially increased funding, if the development of sustainable capacity is not given greater and more careful attention. This is now widely recognised by donor organisations and partner countries alike, as articulated in the 2005 *Paris Declaration on Aid Effectiveness*.

Capacity development is a major challenge. Technical Cooperation and various forms of capacity building have absorbed substantial funds over many decades. While a few countries have done well, donor efforts in many countries have produced little to show in terms of sustainable country capacity. This contrast between the importance of the challenge and the difficulty of meeting it is what stimulated the preparation of this paper. The paper draws on a large volume of documented experience provided by bilateral and multilateral donors and academic specialists. It is mainly concerned with capacity and performance in the public sector, but private sector experience is drawn on where relevant.

Capacity development involves much more than enhancing the knowledge and skills of individuals. It depends crucially on the quality of the *organisations* in which they work. In turn, the operations of particular organisations are influenced by the *enabling environment* – the structures of power and influence and the institutions – in which they are embedded. Capacity is not only about skills and procedures. It is also about incentives and governance.

What has been learned?

Until recently, capacity development was viewed mainly as a technical process, involving the simple transfer of knowledge or organisational models from North to South. Not enough thought was given to the broader political and social context within which capacity development efforts take place. This led to an overemphasis on what were seen as "right answers", as opposed to approaches that best fit the country circumstances and the needs of the particular situation. For related reasons, there was insufficient appreciation of the importance of country ownership of capacity development initiatives.

The new consensus, articulated strongly in the 2005 *Paris Declaration*, sees capacity development as a necessarily endogenous process, strongly led from within a country, with donors playing a supporting role. According to this vision, political leadership and the prevailing political and governance system are critical factors in creating opportunities and setting limits for capacity development efforts. Country policy ownership is not a simple yes/no issue, however, but a matter of processes and trends. It is also not monolithic. The conditions may be right for donors to support locally-owned processes of improvement in certain organisational spheres even when the conditions in the wider system are suboptimal.

From emerging consensus to better practice on the ground

The concepts of capacity and capacity development are so all-encompassing that practitioners have often found it difficult to make operational sense of them. It is important for practitioners to begin by

asking the question "capacity for what?" and focus on the specific capacities needed to accomplish clearly defined goals. The "best fit" approach to capacity development then calls for a systematic effort to think through what might work in the particular circumstances. This can be done by ensuring that adequate attention is given to both individual and organisational issues and to the enabling environment for capacity development at each stage in a process consisting of four main steps or recurrent tasks as follows:

Understanding the international and country contexts

A good understanding of context is fundamental. Help in understanding the enabling environment can be obtained from the "institutional analysis", "power analysis" or "drivers of change analysis" increasingly being undertaken by donor organisations as the basis for country assistance plans. This type of work uncovers the incentive structures behind the "lack of political will" often blamed for the limited success of capacity development programmes. At the level of particular organisations, standard assessment methods need to be supplemented with thorough diagnostic analysis covering both formal and informal aspects. As organisations are "open" systems, thinking about possible change processes needs to include the role of external as well as internal stakeholders, including the private sector. The negative impact of the international brain drain and the positive potential of the diaspora are among the contextual factors relevant to the individual level of capacity development.

Identifying and supporting sources of country-owned change

The commitment in the *Paris Declaration* that countries should lead and donors support is more easily said than done. It is clear, however, that the interactions between donors and domestic actors can generate either vicious or virtuous circles of change in regard to the ownership of capacity development efforts. The key thing is to interrupt any vicious circles, in which ownership and capacity are progressively eroded, and build on any tentative steps that might result in the establishment of a more positive trend, for example by encouraging greater "effective demand" for public-sector capacity within the country.

In more specific organisational terms, donors should support policy frameworks for capacity development that benefit from genuine commitment at a high level and avoid launching parallel initiatives that fragment efforts and divert critical resources. In the absence of commitment, attention should be given to building it by strengthening client and citizen demands. Capacity needs assessments should begin with the question "capacity for what?" and avoid the trap of providing generic training on broad topics, disconnected from the capacity and performance of specific organisations. Some organisations will be a better focus than others in the sense that improvements in their capacity and performance would have more widespread spill-over benefits for the rest of government and the economy.

Individual professionals within and outside the public sector are potential allies for reformers wishing to promote capacity development, and attention should be given to mobilising this potential. Donors should also be attentive to possible government interest in harmonising salary-supplementation schemes as a transitional measure in moving towards more rational pay policies in the public service, one of the requirements for capacity development in many countries.

Delivering support

In delivering support to a capacity development policy or programme, donors must remain aware of the institutional constraints and ensure that their own approach does not contribute to the problem. For example, Project Implementation Units (PIUs) have often been blamed for diverting resources away from critical government functions and working against sustainable public-sector capacity. When working with organisations, reaching agreement on the specific capacity development outcomes that are being pursued is an obvious but often neglected task. As well as clear objectives, programmes need to have the right inputs,

selected on the basis of cost-effectiveness and not just what donors have to offer. This may mean giving preference to local suppliers or South-South links. It is very likely to mean engaging the skills and energies of the country's NGOs, think tanks and private sector. There may be a case for large new investments in training capacity, as argued by the Africa Commission among others. However, any rebuilding of training capacity should take account of recent technological changes as well as the lessons of past experience in programme design. Skill creation should always be integrated with the organisational and institutional changes necessary to put new skills to work effectively.

Learning from experience and sharing lessons

Future capacity development initiatives should be designed to maximise learning at each of the three levels of capacity development: individual, organisational, and enabling environment. A particularly high priority should be given to building shared understanding about what works and what doesn't in terms of improving the enabling environment. Monitoring – preferably by independent assessors – of the application of the *Paris* commitments to support for capacity development is essential, as is better tracking of how money is spent on capacity development initiatives. Monitoring of programmes should be firmly focused on the intended outcomes, so that relevant learning can feed back into programme management and future programme design. Monitoring arrangements that fit this purpose may include efforts to collect the views of clients or end-users of the relevant services, as proxies for measures of capacity enhancement. Monitoring of training impacts should not be limited to the immediate benefits to the individual trainee, but include the effects on organisational capacity.

Capacity development in fragile states

Attention to capacity development issues is no less relevant in "fragile states" than in other developing and transitional countries, though conditions may call for a more selective and limited approach. Focusing on capacity development may be one possible way of engaging different parts of the society in new development efforts in such contexts. Fragile states include a diverse range of country situations, from post-conflict reconstruction to chronic political weakness. Nevertheless, some recent experience from these countries is of quite general relevance.

The idea that applies with special force to fragile environments is that successful capacity development is based on a good multi-level understanding of the country context. Such understanding is what makes possible the design of solutions that best fit the particular circumstances.

Other lessons concern the value of focusing on core state functions, particularly those whose performance directly affects the likelihood of state collapse or further conflict; the desirability of joint planning across the range of security, diplomatic and development actors; the importance of fostering country leadership even where the conditions appear unpromising; taking extra care not to undermine existing, including dormant, capacities; and working with non-state actors in ways that reinforce the development of public sector capacity in the longer term.

Moving forward: Unfinished business

Rising to the challenge of capacity development is not going to be easy. Special and sustained efforts will be needed to take forward the above agenda. In particular, the following items of unfinished business need urgent attention from the DAC and will be the focus of the future work of the DAC's Network on Governance (GOVNET):

- Consolidating the new consensus on capacity development as an endogenous process, making it reach all parts of the aid system and become a central topic of policy dialogue at country level.

GOVNET will help by providing operational advice targeted at practitioners leading capacity development thinking within agencies or participating in relevant dialogue at country level.

- Addressing the systemic factors currently discouraging country-led capacity development as visualised by the *Paris Declaration*. Donors and partners together should be devoting more attention to understanding why the enabling environment is so often weak and what could be done to alter this situation. GOVNET will help by sharing more widely information on how Power and Drivers of Change Analyses can assist in understanding the enabling environment for capacity development.

- Making sure that the international community plays its part in delivering on the *Paris* commitments. GOVNET will help by making available case materials on good and bad practices in supporting country-led capacity development initiatives. This will assist donors in making headway on the commitment to provide support through coordinated programmes linked to government-led strategies as per indicator 4 of the *Paris Declaration*.

- Fully integrating training and human capital formation with the organisational reforms and institutional changes needed to put skills to effective use. Future programme designs should take full account of informal aspects of the way organisations work and how they are influenced by their social and political environment. Future GOVNET guidance will fully reflect what has been learned on these points.

- Working towards policy-relevant Technical Cooperation statistics. In order to assess whether donor inputs are becoming more relevant to the achievement of capacity development outcomes, we need more disaggregated data. GOVNET will link up with the efforts already being made on these lines by the DAC's WP-STAT, to learn from the experience so far and help to ensure an optimal outcome.

- Building upon recent learning about capacity challenges in fragile states. Well targeted and appropriately delivered capacity development may be one of the keys to reducing state fragility, one of the major challenges of our time. GOVNET will help by providing further operational guidance on this subject through the links to country teams applying the *Principles of International Engagement in Fragile States* and though donor headquarters.

I.   WHY FOCUS ON CAPACITY?

Context and purpose of this paper

The growing consensus on aid effectiveness and capacity

1.   In reviews of aid effectiveness, the development of capacity is invariably recognised as one of the most critical issues for both donors and partner countries. The 2005 *Paris Declaration on Aid Effectiveness* highlights the need for significantly enhanced support for country efforts to strengthen governance and improve development performance. In this context, the *Declaration* calls for capacity development to be an explicit objective of national development and poverty-reduction strategies. The reports of the UN Millennium Project and the Commission for Africa are among those challenging the world to treat capacity development with greater urgency.[1] In Africa, the New Partnership for Africa's Development (NEPAD) has identified capacity constraints as a major obstacle to sustainable development. All sides acknowledge that, without sufficient country capacity, development efforts in many of the poorest countries are unlikely to succeed, even if they are supported with substantially enhanced funding.

2.   It is also recognised that this poses a substantial challenge.[2] In recent years, about a quarter of donor aid, or more than $15 billion a year,[3] has gone into "Technical Cooperation", the bulk of which is ostensibly aimed at capacity development. Despite the magnitude of these inputs, evaluation results confirm that development of sustainable capacity remains one of the most difficult areas of international development practice. Capacity development has been one of the least responsive targets of donor assistance, lagging behind progress in infrastructure development or improving health and child mortality. For example, in 2004 the *Global Monitoring Report*, which reviews advancement towards the achievement of the MDGs, noted that improvements in public sector management and institutions – key indicators of public sector capacity – have lagged behind all other MDG benchmarks.[4]

3.   **It is the contrast between the increasingly recognised importance of capacity and the difficulty of achieving it that has stimulated the preparation of this paper**. The record is mixed, however. Some developing countries have made notable steps forward in capacity development, and donors have played an important role in supporting them. We therefore have a basis on which to learn from our failures and successes.

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[1]   *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, London and Sterling, VA: Earthscan/UN Millennium Project, 2005, p. 99; *Our Common Interest*, London: Commission for Africa, 2005, pp. 135-40.

[2]   Capacity development is, of course, a tricky business anywhere in the world, not just in the development context. In some highly industrialised countries, it is possible to devote large amounts of additional public funding to particular services without noticeable improvements in capacity.

[3]   Some estimates of donor assisted capacity development efforts suggest that more than a quarter of total net ODA is spent on technical co-operation. DAC members' spending on "technical co-operation" with developing countries and multilateral organisations amounted $20.8 billion in 2004 (27 per cent of total net ODA) and to $18.4 billion in 2003 (27 per cent of total net ODA). Source: OECD, DAC, *Development Co-operation Report*, Paris, 2003, statistical annex.

[4]   *Global Monitoring Report 2004*: *Policies and Actions for Achieving the MDGs and Related Outcomes*, Washington, DC: Development Committee, World Bank and International Monetary Fund.

Aims of the paper

4.   **The paper offers a framework for thinking about capacity development, based on the main lessons of experience, both good and bad.** It draws on the wealth of evaluations and analysis carried out by bilateral and multilateral donors, as well as on the work of academics.[5] It is largely concerned with capacity issues in the public sector, although it does not address the full range of public sector issues and cannot deal with the challenges in specific sectors, such as trade or education. It is not a "cookbook" containing detailed instructions on how to do capacity development. Instead, it brings together the most critical general lessons learned, and spells out their implications for development practice today.

5.   **One of the most important lessons from experience is that there are no quick fixes or easy formulas that work well in all circumstances.** At the same time, experience does point strongly to a set of core issues which, if tackled intelligently, will improve the results achieved in many particular settings.

6.   The paper's intended audience is a broad range of policy makers and practitioners. But it is directed most particularly to those working on development co-operation at the field level. This reflects the growing appreciation that it is at the field level that decisions about the design of development co-operation are most effectively taken, and where learning and innovation are most likely. **The paper is meant to serve as a framework to guide and stimulate ongoing discussions.** It may also be useful as a basis for dialogue between partner countries and donors.

Basic understandings

What is capacity development and why does it matter?

7.   **In this paper, "capacity" is understood as the ability of people, organisations and society as a whole to manage their affairs successfully.** The definition is deliberately simple. It avoids any judgement on the objectives that people choose to pursue, or what should count as success in the management of their collective efforts.

8.   However, capacity is important because of its relationship to the *performance* of country systems, particularly in delivering basic goods and services, and providing a suitable policy and regulatory environment for development to take place. The relationship between capacity and performance in human affairs may be illustrated by analogy with the motor car. We are careful to maintain the car's engine, chassis, brakes, tyres, etc. – its capacity – because we value the safe and reliable transportation – the performance – that it provides.[6] Development co-operation agencies are ultimately interested in the factors that make possible a strong performance in relation to developmental goals and the MDGs. This requires a clear understanding of the various determinants of that performance.

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[5]   Recent extensive reviews include: World Bank Operations Evaluation Department, "Capacity Building in Africa: An OED Evaluation of World Bank Support" (April 2005); CIDA, "Capacity Development in CIDA's Bilateral Programming: A Stocktaking" (Jan.2004); DANIDA, "Screening of Danish Sector, Programme Support and Mifresta Interventions" (2003); UNFPA's. Support to national capacity development achievements and challenges: Evaluation Report 20 (2003); UNDP's Development Effectiveness Report 2003 and the Reforming Technical Co-operation for Capacity Development Research (2001-2003). Other sources include: Boesen, N. "Enhancing Public Sector Capacity: A Literature Review," Operations Evaluation Department, The World Bank (2003); SIDA, "Methods for CD" (2002); Williams et al. "A Vision for the Future of Technical Co-Operation in the International Development System," London: Oxford Policy Management (2003).

[6]   The car analogy also supports the observation made in the next section – that an organisation's capacity depends on factors in its "enabling environment". Lack of fuel, bad roads and poor maintenance quickly affect a car's performance and may eventually destroy its capacity to deliver transportation at all (EuropeAid, *Institutional Assessment and Capacity Development: Why, What and How?* Brussels: European Commission, 2005, p. 8).

9.   **"Capacity development" is understood as the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time.** The phrase capacity *development* is used advisedly in preference to the traditional capacity *building*. The "building" metaphor suggests a process starting with a plain surface and involving the step-by-step erection of a new structure, based on a preconceived design. Experience suggests that capacity is not successfully enhanced in this way.

10.   "Promotion of capacity development" refers to what outside partners—domestic or foreign—can do to support, facilitate or catalyse capacity development and related change processes. This is by no means equivalent to the provision of Technical Assistance. Not all that comes under the heading of Technical Cooperation (TC) or Technical Assistance (TA) in donor statistics contributes to capacity development. Conversely, there are elements in financial assistance programmes which upon closer scrutiny do qualify as support to capacity development. Examples of roles that donors can play include: facilitating access to knowledge; brokering multi-stakeholder agreements that remove blockages to capacity development; participating in relevant policy dialogue or advocacy; providing incremental resources that help in overcoming bottlenecks in change processes; and creating spaces for learning by doing.

11.   The growing international consensus on the importance of capacity development reflects two connected observations:

- Country capacity is the key to development performance and thus to efforts to accelerate economic growth, reduce poverty and achieve the MDGs. This applies to both generic capacities (e.g., the ability to plan and manage organisational changes and service improvements) and specific capacities in critical fields (e.g. public financial management or trade negotiation). Insufficient capacity in the public sector is a key bottleneck, among other reasons because of the way it affects the enabling environment for private enterprise and private-sector capacity development.

- The cornerstone of contemporary thinking about aid and development effectiveness is country ownership. Yet country ownership of policies and programmes is premised on the capacity to exercise it. Ownership will not begin to emerge in the absence of sufficient local capacity.[7] The relevant capacities include those that allow mediation among the plurality of interests and constituents within the country, so that compromises and shared commitments can be arrived at.

Levels of analysis

12.   Understood as the ability of people, organisations and society to manage their affairs successfully, capacity obviously depends on more than the experience, knowledge and technical skills of individuals. Capacity development at the individual level, although important, depends crucially on the organisations in which people work. In turn, the operation of particular organisations is influenced by the enabling environment – including the institutional framework and the structures of power and influence – in which they are embedded. Power structures and institutions (regular patterns of behaviour governed by social norms, or "the formal and informal rules of the game in a society") shape and constrain the functioning of particular organisations ("groups of individuals bound by some common purpose").[8] In the

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[7]   Francis Fukuyama argues that this tendency means that donors need to define capacity itself as the primary objective of all development assistance, rather than focusing on the services, infrastructure or other results that donors typically define as the targets of their support. See Francis Fukuyama, *State Building: Governance and World Order in the 21st Century*, Ithaca, NY: Cornell UP, 2004, pp. 82-91. See also pp. 99-104.

[8]   This threefold distinction of analytical levels is purely conventional. It is one of several conventions current in the capacity development field. They all begin with individuals as the first level; then they use slightly varied

words of the World Bank Task Force on Capacity Development in Africa, the capacity challenge is fundamentally a governance challenge.[9]

13.   **There are therefore three analytical levels on which capacity-development objectives may need to be pursued: 1) individual, 2) organisational, and 3) the enabling environment**. These terms are used throughout the paper. The term "systemic" is used to refer to the interactions between the levels.

14.   **The enabling environment influences the behaviour of organisations and individuals in large part by means of the *incentives* it creates.** For example, whether or not an organisation is able to achieve its purposes depends not just on whether it is adequately resourced but on the incentives generated by the *way* it is resourced under prevailing rules. Organisations or networks of organisations can be viewed as "open systems", which are in constant interaction with elements of their context. "The context provides incentives to the organisation(s), stimulating them to act in certain manners. Some incentives foster productivity, growth and capacity development, others foster passivity, decline or even closure".[10] In turn, organisational and institutional rules influence individuals' capacities by creating incentive structures that either give or deny them opportunities to make good use of their abilities and skills.

15.   **Successful efforts to promote capacity development therefore require attention not only to skills and organisational procedures, but also to issues of incentives and governance.** Capacity development initiatives almost always take place in a particular organisational setting, where there will be a particular incentive structure deserving attention. However, the broader process of institutional transformation or stagnation in a country may be no less important as a source of the behavioural incentives and disincentives that affect capacity.

The scope and limits of the capacity challenge

16.   **This understanding of capacity development does not make it identical to the building of an effective state or the promotion of good governance**. These are both broader, even if closely related, processes. Another widely used expression, "institutional development", overlaps with capacity development but is not identical to it.

17.   Strengthening public-sector capacity is an important dimension of state formation and a means of improving governance. The experience summarised in the next section suggests that capacity development and general improvements in governance and state effectiveness tend to be linked and to reinforce one another. However, capacity development can also be an entry point in countries with weak governance and not very effective states.

18.   Capacity development is critical not only to the public sector, but also to private firms and to non-profit private organisations and associations. The focus of this paper is on public-sector capacity, including the way it influences and is influenced by the wider economic, political and social context. However, lessons from private-sector experience are drawn upon where relevant.

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terminologies to identify the intermediate organisational levels and the main features of the enabling environment. The important point they have in common is that they describe a system, in which the parts are interdependent. The phrases in quotation marks are from Douglass C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press, 1990, pp. 3, 5.

[9]   *Building Effective States, Forging Engaged Societies*, Washington, DC: World Bank, Sept 2005, Ch 2.

[10] EuropeAid, *Institutional Assessment and Capacity Development: Why, What and How?* Brussels: European Commission, 2005, p. 7.

II.   WHAT HAS BEEN LEARNED ?

A chronicle of trial and error

19.   **Until recently, capacity development was viewed mainly as a technical process, involving the simple transfer of knowledge or organisational models from North to South.** Not enough thought was given to the broader political and social context within which capacity development efforts take place. This led to an overemphasis on "right answers", as opposed to approaches that best fit the country circumstances and the needs of the particular situation.

20.   Capacity and capacity development issues have been on the development agenda for decades. As early as the 1950s and 1960s, donors and academics did considerable work on public sector institution building, with a substantial emphasis on human resource development (education, training and scholarships). This was heavily influenced by notions of knowledge transfer from North to South. Technical Cooperation emerged as an instrument for filling perceived institutional or skills gaps. In many poor countries, much of this assistance yielded very low returns, leading to attempts at improvement, but generally within the same broad paradigm.

21.   Donors have only belatedly recognized the critical importance of country ownership and leadership in capacity development. For many years, they severely overestimated the ability of development co-operation to build capacity in the absence of real country commitment. In the 1980s, awareness grew of the importance of countries' capacities to manage processes of economic reform. However, where – as in much of sub-Saharan Africa – the endogenous demand for capacity enhancement was weak, the resulting approach to capacity "building" still left considerable scope for implanting externally-derived models without serious efforts to adapt them to local cultures and circumstances.

22.   The experience of the next two decades made it increasingly obvious that country ownership needed to be taken much more seriously. **Capacity building would be ineffective so long as it was not part of an endogenous process of change, getting its main impulse from within.**

The new consensus

23.   By the time the DAC agreed on its Principles for Effective Aid in 1992, donors had come some way towards a better approach to capacity development. The 1996 OECD DAC paper "Shaping the 21st Century" played a pivotal role in defining the features of a new paradigm in development co-operation based on ownership and partnership in the development of capacities.[11] More recent initiatives, including the Comprehensive Development Framework (1998), the PRSP initiative (1999) and the Rome (2003) and Paris (2005) Declarations on aid alignment and harmonisation have consolidated this emphasis on increasing country ownership and leadership.

24.   **One of the most important elements of the new consensus between donors and developing countries is that capacity development is primarily the responsibility of partner countries, with donors playing a supportive role.** According to the *Paris Declaration* (**Box 1**) developing countries are expected to lead the process of capacity development, by setting specific objectives in national development plans. Donors are committed to mobilising their financial and analytical support around

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[11] OECD, DAC; "Shaping the 21st Century: The contribution of development co-operation" Paris, 1996, p.13. The 1999 *DAC Criteria for Donor Agencies Self Assessment in Capacity Development* (DCD/DAC(99)4) also attempted to provide donor organisations with tools to assess how their policies were contributing to fostering capacity development. Criteria for Donor Agencies Self Assessment in Capacity Development.

partner country objectives, plans and strategies. They are to make full use of existing capacities, and harmonise their support for capacity development.

Box 1. Capacity development in the 2005 *Paris Declaration*

The capacity to plan, manage, implement, and account for results of policies and programmes, is critical for achieving development objectives from analysis and dialogue through implementation, monitoring and evaluation. Capacity development is the responsibility of partner countries with donors playing a support role. It needs not only to be based on sound technical analysis, but also to be responsive to the broader social, political and economic environment, including the need to strengthen human resources.

Partner countries commit to:

- Integrate specific capacity strengthening objectives in national development strategies and pursue their implementation through country-led capacity development strategies where needed.

Donors commit to:

- Align their analytic and financial support with partners' capacity development objectives and strategies, make effective use of existing capacities and harmonise support for capacity development accordingly.

Source: 2005 *Paris Declaration on Aid Effectiveness*

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25.   **The new emphasis being placed on local ownership recognises the importance of political leadership, and the prevailing political and governance system, in creating opportunities and setting limits for capacity development efforts.** It acknowledges the limited role that development co-operation agencies can play when the country conditions are unfavourable. This implies that a key responsibility of country-based donor agency staff is to identify accurately where it is possible to provide support, because country-owned policies exist or could be created in response to new domestic sources of demand, and where it is not, because the essential preconditions do not exist.[12]

26.   This is never likely to be a simple yes/no issue. Ownership is a matter of processes and trends, not the presence or absence of a particular quality. Also, ownership is not monolithic, something that is exercised by a whole nation or its government. Systemic constraints are likely to be important, and the highest level of leadership endorsement should be sought, in all cases. But the potential for real policy ownership may vary across sectors or individual organisations (departments, agencies). The conditions may be right for donors to support locally-owned processes of improvement in certain organisational spheres even when the conditions in the wider system and the overarching structural/institutional environment are unhelpful.

Key conditions favourable to capacity development

27.   The factors favouring or blocking capacity development are often of a systemic kind – meaning that attention needs to be focused on the relationships between the enabling environment and other levels. Within any given systemic context, there is also a need to consider the factors at work in particular organisations or types of organisation. Countries, including China, Chile and Botswana, that have set a home-grown agenda for reform and defined a broad path for addressing capacity constraints have been able to improve performance and retain local talent. Elsewhere, there has been some success in achieving capacity development within restricted organisational spheres despite a weak enabling environment. In both circumstances, donors have been able to help. In the light of these successes, and of other failures, a

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[12]   Discharging this responsibility calls for a high level of sensitivity to country context. For agencies, it may also mean giving new emphasis to equipping field staff with process and analysis skills.

common understanding has emerged in the development community about the key conditions more favourable to capacity development.[13]

28.   **Boxes 2 and 3 draw together some of the main lessons of international experience. Box 2** synthesises findings concerning the systemic conditions that have tended to obstruct capacity development.

29.   Emphasising the positive, **Box 2** suggests that successful capacity development is associated with two sets of factors. First, there is a set of broad enabling conditions that increase the likelihood of success. They include peace and economic growth, and trends in politics and society resulting in the institutionalisation of improved governance and an increase in the legitimacy and influence of formal rules as against informal patronage. Second, there is a series of factors more directly affecting capacity in government, and therefore the possibility of rapid improvements in public-sector capacity. These include not only inherited aspects of the structure of government and entrenched patterns in the public service, but also some features over which donors have an important influence – the phenomenon of "reform overload" and the often low predictability of donor resource flows.

30.   Changes in the constraints that are identified in **Box 2** are unlikely without profound transformations that are both led from the highest political level and sustained over an extended period. Although donors can influence some features for better or worse, the scope for donor initiatives or programmes to bring about changes in the public sector when these are not being driven by domestic forces is extremely limited. The same is true for the organisational level, but the degree of country-side leadership that is required for success within a single organisation or organisational sphere may be less. **Box 3** relates more narrowly to the organisational level of capacity development.

Box 2. Conditions that have made public sector capacity difficult to develop[14]

Lack of a broadly enabling environment:	**Aspects of government ineffectiveness:**
❏ Lack of human security and presence of armed conflict. ❏ Poor economic policy that discourages pro-poor growth. ❏ Weak parliamentary scrutiny of the executive branch. ❏ Lack of effective voice, particularly of intended beneficiaries. This is generally associated with weak social capital (trust) and with political systems with low participation, unclear and arbitrarily enforced "rules of the game" and/or lack of respect for human rights. ❏ Entrenched corruption (political and administrative) in core government organisations. ❏ Entrenched and widespread clientelism or patrimonialism, weakening the pursuit of organisations' formal tasks.	❏ Fragmented government, with poor overall capacity for economic and public financial management, and low levels of transparency and accountability. ❏ Absent, non-credible and/or rapidly changing government policies, and overload of reform and change initiatives. ❏ Unpredictable, unbalanced or inflexible funding and staffing. ❏ Poor public service conditions: salary levels incompatible with reasonable expectations of living standards; history of flight of qualified staff to other countries; excessive reliance on donor-funded positions. ❏ Segmented and compartmentalised organisations, with centralist, strictly hierarchical, authoritarian management. ❏ Only a formal commitment to a performance-oriented culture, reflected in a lack of rewards for performance and of sanctions for non-performance.

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[13]   These include the international conferences in Manila in 2003 and Tokyo in 2004 as well as various OECD/DAC documents and research endeavours by UNDP and others.

[14]   The boxes are adapted from Boesen et al., 2002; Grindle, 1997; Horton, 2002; Nunberg and Nellis, 1995; Tendler, 1989; Kanter,1983; Senge, 1990; and Robbins and Finley, 1997, as cited in DANIDA's *Capacity Development Evaluation, Between Naivety and Cynicism: A Pragmatic Approach to Donor Support for Public-Sector Capacity Development*; Nils Boesen, Process & Change Consultancy Ole Therkildsen, Danish Institute for International Studies.

31.   Capacity development in particular organisations, the subject of **Box 3**, will always be constrained by the broad factors in the institutional environment emphasised above, but the degree to which these are *binding* constraints appears to vary. The box summarises findings from a broad range of evaluations and studies about the factors commonly found to be responsible for success at this level.

32.   At the organisational level, strong and effective leadership emerges as an important success factor, along with powerful pressures for change coming from outside the organisation. So does active management of the process, so that gains become cumulative and gradually win the support of the different stakeholder groups that might otherwise sabotage it.

Box 3. Conditions favouring capacity development in organisations

❏   Strong demand-side pressures for improvements are exerted from outside (from clients, political leaders, etc.).

❏   Top management provides visible leadership for change, promotes a clear sense of mission, encourages participation, establishes explicit expectations about performance, and rewards well-performing staff (recognition, pay, and promotions based on merit).

❏   Change management is approached in an integrated manner.

❏   A critical mass of staff members, including front-line staff, are ultimately involved.

❏   Organisational innovations are tried, tested and adapted.

❏   Quick wins that deepen commitment for change become visible early in the process.

❏   Top management and change agents manage the change process strategically and proactively, including both internal and external aspects of the process (communication, sequencing, timing, feedback loops, celebration of victories, and recognition of problems).

Summing up what has been learned

33.   The discussion so far suggests the following as the most important things learned about capacity development:

- Capacity – understood in terms of the ability of people and organisations to define and achieve their objectives – **involves three levels: individual, organisational and the enabling environment.** These levels are interdependent. This approach entails a concern with the wider political economy of change, but continues to treat capacity development as a distinct challenge and entry point for intervention apart from wider efforts to build the state or promote good governance.

- Capacity development – understood as a process of unleashing, strengthening and maintaining of capacity – goes well beyond the Technical Cooperation and training approaches that have been associated with "capacity building" in the past. The stock of human capital and the supply of general and technical skills are important. However, **a country's ability to use skilled personnel to good effect depends on the incentives generated by organisations and the overall environment.**

- **Capacity development is necessarily an endogenous process of change.** Because it involves much more than awareness of technical subjects and general organisational principles, it cannot be imported. The best imported advice may be expected to emphasise this point strongly. Donor organisations with a mandate for supporting capacity development should be at the forefront of the movement emphasising country ownership of change initiatives.

- Appreciating the interactions between three levels of the capacity-development process – enabling environment, organisational and individual – means recognising the important role of systemic factors in enabling or blocking change. However, **the constraints arising in the enabling environment are not equally binding in all cases, and it is possible to identify**

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factors at the organisational level that make success more likely. Focusing capacity development on particular organisations may also make good sense in generally unpromising governance situations (as further explored in Section IV).

III.   FROM EMERGING CONSENSUS TO BETTER PRACTICE ON THE GROUND

Operationalising what has been learned

34.   What has been learned about capacity development over the past 40 years does not suggest a simple message on "how to do it". Moving on to better practice on the ground calls for a focus on specific objectives, followed by flexible and imaginative thinking about the methods that are right for the circumstances. The concepts of capacity and capacity development are so all-encompassing that practitioners have often found it difficult to make operational sense of them. It is important, therefore, for practitioners to begin by asking the question "capacity for what?" and focus on the specific capacities needed to accomplish clearly defined goals. As stressed in Section II, what is then needed is an active search for approaches that achieve a *best fit* with the particular circumstances of the country, sector or organisation that is under consideration. This implies a highly flexible search for appropriate ways of supporting capacity development.

35.   **Without losing this flexibility, it should be possible to conduct the search in a systematic way.** This can be done by ensuring that thought is given to the relevant issues at each stage in a process, paying attention to each of the analytical levels – enabling environment, organisational and individual.

36.   **Table 1** illustrates a systematic approach to a flexible, "best fit" way of thinking and programme design for capacity development. It suggests issues to consider about each *level* of capacity development (enabling environment, organisational and individual) in a stylised set of *steps*. The latter are not to be understood as a single, once-only sequence. They represent tasks to be undertaken in what is very likely to be a continuous, iterative process. Four "steps", understood in this way, are considered:

- Understanding the international and country contexts.
- Identifying and supporting sources of country-owned change.
- Delivering support.
- Learning from experience and sharing lessons.

37.   The remainder of this section is structured according to the two dimensions (levels and steps) of this diagram. Not all issues can be covered in all of the relevant sub-sections, but as a whole the section may be thought to provide a good guide to the critical issues to consider and act upon.

Table 1. Achieving a fit between capacity development approaches and country realities: Issues to consider

Understanding the international and country contexts	Identifying and supporting sources of country-owned change	Delivering support	Learning from experience and sharing lessons	
What are the historical and contemporary factors underlying the observed "weakness of political will" behind capacity development? How are power structures and formal and informal institutions changing, and with what effects on politicians' incentives?	Does the interaction between donors and country actors form a "virtuous circle" or a "vicious circle", from the point of view of the ownership of capacity development initiatives? Are there ways donors can encourage effective demand within the country for greater capacity development?	Are donors doing all they can to promote changes in the institutional environment for capacity development, e.g. by supporting domestic stakeholder demands? Is support being delivered in ways that enhance, or undermine, the possibility of organisations' learning by doing?	Is there monitoring of whether institutional rules are changing in important ways and how this has come about? Is there independent, objective monitoring of the mode of delivery of the support?	**Enabling environment**
How are capacities currently shaped by the informal and "political" aspects of organisations? Are these features generalised or variable across organisations or organisational spheres? Are there private-sector pressures and resources that could be mobilised in support of enhanced public sector capacity?	Is capacity development an explicit objective of a plan or policy benefiting from real country ownership? Is there effective ownership of initiatives within particular organisations or organisational spheres, especially in any organisations where there would be substantial spill-over benefits?	Have the objectives of the supported initiative been clearly defined in terms of the desired capacity-development outcomes? Have the inputs and their providers been selected with a view to cost and effectiveness, or have these decisions been supply-driven?	Is achievement of the agreed capacity-development outcomes being effectively monitored and lessons fed back into the process? Do the monitoring arrangements include reasonable proxy measures, with appropriate involvement of clients or service users?	**Organisational level**
How is the availability of skilled and committed individuals shaped by global and local push and pull factors? Under what conditions could the diasporas contribute more strongly to capacity development at home?	Are individual professionals able to be mobilised in support of measures to combat the erosion of public-sector capacity? Are donors being sufficiently responsive to government initiatives aimed at restoring salary levels in key posts?	Do the training components take full advantage of the potentialities created by modern information technology? Are the training components linked to enhancing organisational effectiveness and putting new skills to use?	Does the follow-up of individual capacity enhancement go beyond knowledge and livelihood benefits? Is it tracking the effects on organisational capacity and performance?	**Individual level**

Understanding the international and country contexts

38.   **A good understanding of context is fundamental.** Donors and their partners are increasingly moving towards an approach to capacity development that asks, not "how to do it", but "what might work here?" An obvious precondition for such an approach is a good understanding of the context, as it affects the enabling environment and organisational and individual levels of analysis. Both international (global, regional) and country-specific factors will normally need to be considered.

The enabling environment

39.   In recognition of the importance of understanding the context in effective programme design, many donor organisations are devoting more attention to country-by-country (and/or sectoral) political-economy studies. These are variously named "institutional analysis", "power analysis" and "drivers of change analysis". Conflict analysis, or conflict assessments, can play a similar role. What these exercises have in common is an effort to provide more sophisticated understanding of political and social systems, incentive structures, and sources of leadership in developing and transition countries, and to incorporate these understandings into operational work. They provide a means of thinking more systematically about how change occurs, the power relationships at stake and the structural and institutional factors underlying the often-observed "lack of political will" behind reform processes.

40.   **Country political economy studies provide a valuable first step in approaching capacity development.** In principle, the results of such studies can be widely shared among stakeholders who are interested in promoting capacity development in a country. So far, this has not generally happened. Donors have felt sufficiently challenged by absorbing political-economy analysis into their own operational thinking and have not seen it as material for a broad discussion with country stakeholders. This has been recognised as an issue that needs to be reviewed.[15]

41.   **Box 4** explains how a "drivers of change" approach suggested a new way of addressing the enabling environment for capacity development for one DFID country office.

Box 4. Addressing the enabling environment for capacity development in Nigeria

A number of programme reviews undertaken by DFID in Nigeria between 2000 and 2003 suggested that the impact of technical, transfer-based, capacity development was less substantial than anticipated. DFID set out to discover what factors were diluting the impact of this assistance. A Drivers of Change analysis revealed that apparently significant changes in the formal institutional environment – such as the transition from military to civilian rule – had had less impact than expected on key problems blocking Nigeria's development: the mismanagement of revenue from oil, the weakness of formal accountability mechanisms and the slowness of non-oil economic growth. As well as highlighting the lack of political will for pro-poor reform, the analysis led to a greater appreciation of the role of powerful quasi-structural constraints on the behaviour of individual agents within and outside government. Informal institutional arrangements – for both private (including business) and public transactions – were more powerful and pervasive than their formal counterparts. These factors have combined to act as a significant barrier to reform.

DFID concluded that in Nigeria, as in many developing countries, pro-poor change requires elements of the status quo, and the apparatus of government that defends it, to be changed. Therefore engagement with the government in isolation from the broader political context would not be productive. Change tends to happen when broad alliances across civil society, often supported by media attention and the private sector, and linked into reform elements within government, coalesce around an issue of political importance and exert pressure for effective change. Recognising this reality, DFID is now taking an "issues-based approach" in Nigeria, aiming to contribute to the institutional changes needed to make successful capacity development a possibility in the longer term. The approach focuses on issues rather than organisations. It is non-prescriptive about both the issues and the organisations it engages with.

Source: DFID 2004.

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[15]   DAC GOVNET, "Room Document 5: Lessons Learned on the Use of Power and Drivers of Change Analyses in Development Co-operation", 7th Meeting of the DAC Network on Governance, Paris, 20-21 Oct 2005, Para 69.

42.   A good political-economy analysis in a country will be expected to include both the legacies of history and tradition, and present-day influences on leaders' incentives. Particularly in sub-Saharan Africa, some emphasis is likely to be given to the way formal institutions, not being rooted in local culture, generally fail to command society's loyalty or to trigger local ownership.[16] Another central issue will be the degree to which weak principles of accountability based on institutions of the patron-client type have begun to give way to practices based on rights of citizenship. This will affect the degree to which there is actually or potentially a *demand* for capacity development in the country. Incentives arising from the international state system and the architecture and practices of aid are also likely to figure in the analysis. All these types of factors will be relevant in the first stage of thinking about "what might work here?", or whether anything will work at all, with respect to capacity development.

43.   It is very possible that what to *do* differently at the country level will not arise immediately from an improved understanding of the institutional context. The Nigeria example illustrates a possible approach, but its effectiveness has not yet been demonstrated. Appreciating the institutional context may only have the limited, although healthy, effect of reminding us why simple fixes or massive injections of external resources may have negligible effects on capacity. International factors in the situation call for coordinated international remedies, not just better country-level programming.

The organisational level

44.   Understanding the enabling environment is one necessary part of the analysis. Another is appreciating the strengths and weaknesses of particular organisations. There are several well-known tools of organisational assessment (SWOT analysis,[17] stakeholder analysis, etc.). These can usefully be applied to organisations that may be indicated as sites for capacity development. But they provide only a starting point. **It is important to get beneath the surface of an organisation, and look for both formal and informal, hidden aspects that may crucially affect performance.** A diagnosis of weak capacity that focuses only on the "functional-rational" dimension of the organisation will normally be misleading and ineffective. It is important also to understand the political (or political economy) dimensions, including those that may actually or potentially have a positive effect on performance.[18]

45.   In thinking about change, careful analysis is likely to be needed not only to identify the different stakeholders but to consider who are the intended and unintended winners and losers, and how they might block or support any change processes. Relevant stakeholders will include citizens and users of the services and products of the organisation, staff unions, senior officials and leaderships at the local-government level, as well as national politicians, NGOs and other donors. The right-hand side of **Box 2** and the whole of **Box 3** together provide a valuable checklist for thinking about these issues.

46.   **The relevant stakeholders include the private sector.** In many of the countries where notable improvements in public sector capacity have been attained, private sector demand for competent public services and better governance has been a major stimulus to change. Donors should consider ways in which private sector demands for improvement in the investment climate can be harnessed more effectively as a spur to public sector capacity development at the country level. Private sector investment has also been a major source of funds for developing capacity in sectors such as finance, accounting and information technology. In both respects, it is important to ensure that the initial thinking that takes place on the organisational conditions for capacity development includes an effort to think through the structure and potential of the private sector contribution. **Box 5** illustrates the point.

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[16] Mamadou Dia, *Africa's Management in the 1990s and Beyond: Reconciling Indigenous and Transplanted Institutions*, World Bank Research Study, 1996, p. 1.

[17] That is, systematic review of Strengths, Weaknesses, Opportunities and Threats.

[18] EuropeAid, *Institutional Assessment and Capacity Development: Why, What and How?* Brussels: European Commission, 2005, Ch. 5.

Box 5. Reforming the business environment in Afghanistan

After 23 years of war, the Afghan government has embarked on an ambitious agenda to reform the business environment for Private Sector Development but lacks the capacities to design and implement the reforms. As one of the first steps, and with support from Germany's GTZ, the Afghan Investment Support Agency (AISA) was established. Without a clear regulatory framework, this engagement was quite risky, but is now seen as a success story. The registration time for new businesses was reduced to less than a week. After nearly two years of operations, AISA has registered more than 3300 businesses with a planned investment of 1.3 billion USD and more than 130 000 direct jobs envisaged. According to the newly published report of the World Bank "Doing Business in 2006: Creating Jobs", Afghanistan is the top reformer on business entry in 2004.

Regarding the scope, quality and speed of its own services, but also in its advocacy for private-sector concerns, AISA is motivated and challenged by outspoken representatives of the business community. It is on account of this demand that AISA is now also active in analysing and marketing business opportunities at home and abroad. The Agency then goes on to accompany investors before and after the registration procedure to help them in coping with the difficult environment. In the process, AISA itself has become an important voice in the reform of the business environment in Afghanistan.

Source: GTZ 2005

The individual level

47.   **Social influences need to be thought about along with personal capabilities and competences.** Social influences may affect the individual through the informal culture of the organisation, for example by generating peer pressures that fail to reward and even penalise excellent performance in terms of its formal objectives. They may also act more directly, for example where family or home-town loyalties interfere with an official's ability to comply with legal or administrative norms. If they are not dealt with, these factors will be likely to weaken the capacity-enhancing effects of any training, even if this is successful in educational terms.

48.   **Donors should consider whether their own governments' policies are part of the problem.** In capacity development, policy coherence among different parts of OECD governments poses serious challenges. For example, 70,000 African professionals leave the continent annually.[19] In view of the return flow of remittances, some of this may be genuine "brain gain", from which all can benefit, but there are areas where OECD government policies (together with significant "push factors" within the sending countries) risk stripping developing countries of essential skills. Sweden's Policy for Global Development offers one possible model for highlighting policy inconsistencies in the field of migration through an all-of-government approach.

49.   **This should include the role of the diasporas.** In many developing countries, the diasporas created by past outflows of human capital have a role to play in rebuilding or developing capacity in their native countries and communities. In every world region, there is evidence that members of diasporas have contributed valuable management skills to governments, NGOs and the private sector, while also bringing financial resources, external contacts and demand for a higher overall standard of performance.[20] Finding new ways of tapping into the experience and network of the diasporas has an obvious place in any national capacity strategy.

50.   The first step, however, is to understand better the constraints to be overcome by any diaspora-oriented initiative. Factors to be taken seriously include the obvious labour-market and remuneration issues, as well as availability of education and health services, and the general climate of security. Also worth considering is the way organisational cultures and conflicts between formal and informal

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[19]   World Bank OED. *Capacity Building in Africa. An OED Evaluation of World Bank Support, 2005.*

[20]   See Chap. 2, UNDP "Ownership, Leadership, and Transformation".

institutional expectations may inhibit diaspora professionals from reintegrating effectively into responsible positions in their countries of origin.

Identifying and supporting sources of country-owned change

51.   The consensus view is that capacity development is the primary responsibility of partner countries, with donors playing a supportive role. While clear enough in principle, this raises an important set of issues for those responsible for its operationalisation at country level. Once again, there are questions at the enabling environment, organisational and individual levels of analysis.

The enabling environment

52.   **Country ownership needs to be treated as a process.** As emphasised in the last section, country ownership of capacity development processes is not the sort of feature that either exists, in a fully-fledged form, or does not exist at all. At the level of the overall institutional framework, it is quite clear that forces for change will only arise out of the political and social system of the country. Although national politics may be influenced by international and regional pressures, improvements in institutions cannot be engineered by donors (even where the donor community has the ear of the president or feels that it is engaging in strategic policy dialogue at the highest level). On the other hand, the way donors behave in their dealings with the country can be important in reinforcing the patterns that are emerging in positive or negative ways.

53.   **The interactions between donors and domestic actors can generate either vicious or virtuous circles of change in respect of the ownership of capacity development efforts.** Annex 1 illustrates the proposition. In the typical vicious circle, donors perceive bad results as confirming weak capacity and commitment on the recipient side, and respond by assuming leadership themselves. This progressively increases the sense of disengagement and lack of interest in performance standards among recipient organisations and individuals, which results in a further deterioration in capacity. A virtuous circle might start with a donor perception that the recipient is becoming more serious about taking a lead. It would then see the donors holding back, allowing and encouraging country assertiveness to turn into a self-reinforcing process of empowerment, bringing with it capacity improvement and, in due course, better results. **Box 6** provides an example.

Box 6. Parliament driving establishment of external audit function in Montenegro

Taking inspiration from a Transparency International report, the Government of the Montenegro Republic asked Germany for support in establishing an external auditing authority. GTZ's advisory work started at the Prime Minister's Office, but early in the process, Parliament's Finance, Economy and Environmental Protection Commission emerged as the truly motivated domestic stakeholder. The Commission energetically took ownership for the drafting of the law establishing the State Auditing Institution in Montenegro, proudly presenting the first law ever tabled by Parliament. Parliament passed the law in April 2004 and elected the Senate of the State Auditing Institution in September of the same year.

Motivated by its mandate from Parliament, the State Auditing Institution developed a strong ownership on its own. Its managers and staff eagerly absorbed training such as that provided by the Montenegro private accounting firm which had audited the accounts before. The State Auditing Institution was thus able to present to Parliament its first auditing report on Montenegro's state accounts in July 2005, pointing out several omissions and flaws in budget execution and generally in the use of public resources. Its findings were fully endorsed by Parliament and passed on as requests for change to the Government. GTZ now focuses its advisory work with both the Parliament's Commission and the Auditing Institution on individual organisational audits.

Source: GTZ 2005

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54.   **The observation that there are both vicious and virtuous circles in aid relationships is central to the debate about programme-based approaches (PBAs).[21]** Neither sector-wide approach programmes nor general budget support can get started without certain preconditions on the country side. Yet as and when those conditions begin to be created, PBAs can contribute to a process in which country policy ownership is progressively built up or rebuilt, with country leadership strengthening and providing a focus for aid alignment. On the other hand, continuation of fragmented or piecemeal donor approaches can cause the process to falter.

55.   An important issue to consider in thinking about capacity development in a particular country is whether the relevant interactions between donors and domestic actors are of the virtuous or vicious circle type. In the latter case, where might it be possible to break into the circle, so that the direction of change is reversed? **One option is for donors to use their influence to encourage the "effective demand" for public sector capacity within the country.** This may be able to be done, for example, by emphasising the importance of parliamentary oversight in budget preparation and execution, or by supporting rights-based movements focused on particular aspects of government performance.

56.   Annex 2 sets out the default principles that UNDP suggests as starting points for successful capacity development partnerships between donors and developing countries.

The organisational level

57.   The judgement about whether country ownership is being strengthened or weakened by the current pattern of interaction between donors and government needs to be made with care. The mere existence of a capacity development strategy or policy document to which senior officials have put the government's name is not necessarily an indication of real commitment. It will normally help if capacity development is adopted as an explicit objective in the PRSP or other country development strategy, with defined benchmarks and indicators of progress. However, this may or may not imply a high level of country ownership.

58.   The World Bank 2005 Comprehensive Development Framework report *Enabling Capacity to Achieve Results* suggests overall global improvements in capacity to formulate development strategies. In particular, countries which have adopted Poverty Reduction Strategies have a stronger capacity development focus at the strategic level which helps to define goals and helps donors to harmonise their approaches. The report outlines many challenges ahead but highlights the case of Ethiopia, which has developed a comprehensive capacity development strategy supported by external partners. This has provided the framework for gains to be made in technical areas such as public financial management, procurement, budget execution, reporting and review. On the other hand, experience across several countries in sub-Saharan Africa suggests that comprehensive administrative reforms are particularly vulnerable to changes in the political context. For this reason, the approach of "strategic incrementalism" favoured in Tanzania may be a better option in most countries.[22]

59.   **Whether the donor's preference is for programme- or project-based approaches, the modalities of support should work in a way that encourages and strengthens initiatives benefiting from real country commitment.** It does not make sense for donors to initiate competing frameworks for capacity development that fragment efforts and divert critical human resources from their main tasks. Where the temptation to mount parallel initiatives arises from a perceived lack of commitment on the government side, donors should consider the scope for enhancing demand-side pressures, by promoting

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[21]   Réal Lavergne, "Program-Based Approaches: The Concept and its Implications", Presentation to Tokyo Forum on PBAs in Asia, 1-3 June 2004.

[22]   Brian Levy, "Governance and Economic Development in Africa: Meeting the Challenge of Capacity Building" in Brian Levy and Sahr Kpundeh (eds.) *Building State Capacity in Africa: New Approaches, Emerging Lessons*, Washington, DC: The World Bank, 2004, p.13.

mechanisms such as service-delivery surveys or citizen report cards, or by developing civil society and private sector advocacy capacity.

60.   **Capacity needs assessments can be a useful way to begin an open dialogue between donors and developing country partners**. Successful assessments, described in recent reviews, tend not to be open-ended, country-wide "fishing expeditions", but focused attempts to link capacity needs to overall development goals. Such assessments usefully begin with the question "Capacity for what?" For example, capacity development strategies for public financial management or for the health system can define functions that personnel need to deliver, look at the overall system to see if the regulatory framework and incentive system are conducive to the needed changes, and define what interventions may be necessary.

61.   **Choosing the right organisational scope is as important as selecting the right organisations as a focus for capacity development**. Approaches that have attempted to develop organisational capacities by means of generic training in subjects such as "building partnerships" or "project implementation" have had limited impacts. These generic capacities are needed. However, the way to develop them seems to be securing key changes in the enabling environment – institutional rules placing more stress on accountability and demand for results – and creating or strengthening organisations that focus on achieving specific outputs and outcomes.[23] This choice among alternative training approaches for strengthening organisational capacities is distinct from the issue discussed further on about rebuilding professional training institutes.

62.   **Some organisations are more crucial than others.** Focusing on capacity development in a single organisation entails the danger of creating "islands of excellence" which contribute very little to overall improvement in the system. From this point of view, it makes sense to target organisations whose enhanced performance will have important spill-over effects on the capacity or performance of a large number of other organisations or the national economy as a whole. The case of the Rwanda Revenue Authority illustrates the point. In just 6 years, it became a high performing and well respected organisation, helping to increase domestic revenue generation from 9.5% to 13% of GDP.[24] In another recent example, increased capacity in the Accountant General's Department has contributed importantly to the overall effectiveness of public financial management in Tanzania.[25]

The individual level

63.   Many developing countries continue to struggle with public services that are riddled with negative or perverse incentives for individual staff members, including low remuneration, skewed recruitment and promotion criteria, haphazard staffing levels and inadequate tools or facilities. All of these factors have been blamed for capacity erosion. Donors and NGOs frequently add to these de-motivating factors by recruiting local personnel at significantly enhanced salaries and with much improved working conditions from the same limited skill pool. **Individual professionals** – both those who remain in post and dedicated to their jobs in spite of the poor conditions, and those who have left the public service but would prefer to return – **are potential allies for reformers wishing to promote capacity development**. Whether it is feasible to mobilise this potential is an important part of the question about the possible scope of country-owned change.

64.   Compensation policies have a role to play along with better human-resource management in retaining talent in the public service. Donors can play a role in preserving capacity by avoiding salary

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[23]   Nils Boesen & Ole Therkildsen, *A Results-Oriented Approach to Capacity Change*, Danish Ministry of Foreign Affairs.2005.
[24]   Anthony Land, *Developing Capacity for Tax Administration: The Rwanda Revenue Authority*, Maastricht: ECDPM, Discussion Paper 57D, Nov 2004.
[25]   Daima Associates and ODI, "Joint Evaluation of General Budget Support: Tanzania 1995-2004", Dar es Salaam, Apr 2005.

structures that make it more attractive to work for donor programmes than for local institutions. They should also be prepared to recognise and respond to any government interest in addressing the problem in a more positive way. **As a transitional approach to sustaining public-sector earnings in key posts, it may be feasible for donors to harmonise, under government leadership, around an agreed set of salary supplements and rules of the game.** The Tanzania example in **Box 7** illustrates both the possibility of a government-led initiative of this type and some of the pressures that may be expected to weaken commitment if it is less than robust.

Box 7. From top-ups to sustainable incentives for civil servants, Tanzania

Tanzania institutionalized a nationally owned system of incentives within the public service. The Selective Accelerated Salary Enhancement scheme (SASE) exemplifies a possible solution to addressing salary incentive problems within the wider context of pay reform. It is part of the overall government's Public Service Reform Programme. The SASE scheme was rolled out to four ministries and was selective in two ways: a) by targeting personnel in positions which have the greatest impact on service delivery, the reform effort and the strategic outputs of government; and b) by being phased-in selectively, starting with public service Ministries/Departments/Agencies (MDAs) that have leading roles in change management or are well advanced in implementing strategic plans. In some cases (mainly for lower cadre) SASE doubled take-home pay.

The scheme has faced many challenges including resentment by non-SASE officials and by non-qualifying ministries, especially at local government level. It also engendered political opposition to a selective scheme in a society with strong egalitarian values. Donors remained unconvinced about Government commitment to the scheme, in view of the continued payments of allowances that were supposed to be phased out. They therefore refused to participate in funding of SASE, which would be unaffordable to Government if it was rolled out across other Ministries.

SASE has faced difficulties. However, it offers one of very few experiences of a middle way between the divisive and uncoordinated top-up schemes of the past, and a fully-fledged public service pay reform. The underlying reasons why it could not be implemented as planned should be explored more fully, so that they can be overcome in future designs.

Source: Sida 2005

Delivering support

65.   Once a feasible joint approach to capacity development has been agreed, either for a particular organisation or for a set of key state functions, a series of more specific design and delivery questions will arise. At this point a hard look needs to be taken at both what the government is proposing to do and how the donors are proposing to support it. Again, the approach needs to keep all three levels of the capacity challenge – enabling environment, organisational and individual – in the picture, even when the operational focus is on one concrete organisation or set of functions.

The enabling environment

66.   **The enabling environment does not cease to be relevant when the specific design issues are in focus.** Transforming the general institutional rules is only promising if the political commitment is strong and coming from the highest level. Stronger effective demand from parliamentarians, the court system and citizens in general is a likely source of increased commitment, but one that may take some time to evolve, depending on the issue. However, so long as there are some endogenous processes moving in the right direction donors should be prepared to support measures to improve compliance with international conventions, accountability in public financial management, freedom of the press and other reforms expected to strengthen domestic demand for performance and capacity.

67.   Capacity strengthening in a particular organisation may be the most manageable operational objective for donors. However, in this case the operational work should keep a realistic perspective on the way the institutional context will affect the organisational improvements that can be realised, as well as the degree to which there will be spill-over benefits to the wider system. **Also, the operational work should**

be done in a way that does not undermine any longer-term prospects for wider and more institutional change.

68.   The way in which the support is delivered is a major factor in this respect. **For example, Technical Cooperation can be particularly effective when pooled and coordinated, rather than provided separately by individual donors.** The ECDPM study of decentralised education services in Ethiopia indicates the range of current donor practices **(Box 8)**.

Box 8. Forms of donor support to capacity for decentralised education service delivery in Ethiopia

The "balance sheet" regarding donor engagement has positive (capacity enhancing) and negative (capacity draining) features. On the positive side, USAID has supported two systematic and long-term efforts that have begun to have positive effects on education service delivery. A World Bank-led consortium of donors has helped to prepare a nationwide programme of demand-led capacity development, and DFID has sponsored a study of comparative approaches to local government capacity building in Ethiopia and elsewhere. Increasingly, donors are providing aid in the form of budget support, and encouraging evaluation through programme reviews and the production of "tools" to help implementation. On the other hand, despite the existence of formal coordination mechanisms (including one devoted to education), and some budget support, donors have retained bilateral "projects" running parallel to the Education Sector Development Programme, and have retained control of significant funds for TC within the supposedly "pooled" funding arrangements for the new programme.

Source: David Watson and Lissane Yohannes, "Capacity Building for Decentralised Education Services in Ethiopia," Maastricht: ECDPM, Discussion Paper 57H, July 2005, Summary.

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69.   **Donor-instigated Project Implementation Units (PIUs) should be avoided whenever possible.** It is well established that while "getting the job done", the typical PIU also tends to undermine the ability of organisations to "learn by doing".[26] Working through national systems and processes, though sometimes cumbersome and challenging, remains an overarching principle for developing capacity. The approach now preferred in many donor agencies is to avoid parallel units and to design interventions or projects so as to build the capacity of line units responsible for projects as part of the project itself. If the design is kept simple, and tailored to the absorptive capacity of the agency, there is less need for PIUs. The *Paris Declaration* sets a target for reducing the number of parallel Project Implementation Units in partner countries.

The organisational level

70.   At the organisational level, two important things to think about are whether the objectives are clear and performance-oriented, and whether the methods selected are the most appropriate.

71.   The concern to define objectives may seem obvious. However, evaluations of capacity development programmes in the past are full of examples where the capacity development outcomes being sought by a programme were never clearly articulated. Instead the programme was defined largely by the inputs provided or easily quantified outputs (numbers of staff trained, etc.). Conceptualising capacity in terms of the ability to work effectively towards agreed goals, such as the MDGs, should assist in defining objectives.

72.   **Agreeing the desired outcomes of capacity development is fundamental, both for focusing interventions and for setting benchmarks for assessing progress along the way**. There are a variety of techniques that can be used in a joint design process to force the participants to articulate objectives in

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[26] This is the conclusion of a wide range of evaluations and studies. For one example, see the section on PIUs in UNFPA, Evaluation 20.

outcome terms. Views differ about whether formal methods (LFA, ZOPP)[27] and professional facilitation are the best way to secure the kind of agreement that matters in a multi-stakeholder process. However, whatever approach is adopted there needs to be an effort to identify specific outcome objectives and think about "what might work here" to achieve them.

73.   The selection of methods for attaining outcomes must not be supply-driven. That is, it should not be influenced by what the donor has to offer. It should be based on a considered judgement about the likely effectiveness and comparative costs of the available options.

74.   **This may imply considering non-traditional suppliers of certain sorts of input.** At the Shanghai Poverty Conference in 2004, and during the consultation process for this paper, developing country representatives expressed a strong preference for local organisations, rather than providers from the developed world. There are examples of this working well, such as the one from Croatia in **Box 9**. A patient and predictable approach from donors over a decade to the African Capacity Building Foundation has created a strong regional institution capable of delivering human and organisational capacity programmes.

Box 9. Community organisations develop capacity in Croatia

In Croatia, the United States Agency for International Development (USAID) has worked with the civil society sector through a small grants programme that was successfully implemented by three Croatian NGO support and grant-making organisations. This effort resulted in the issuance of 221 small grants to grassroots NGOs that were active in reaching out to their communities to mobilise citizens. In total, 62,000 citizens were mobilised and carried out community development projects that benefited over 37,000 of Croatia's most vulnerable citizens.

For example, one organisation, Odraz, promoted community development by building and developing the capacity of active community leaders. Odraz is a non profit organisation whose mission is to motivate and strengthen initiatives in local communities through partnership in order to develop practical and appropriate ways for improving the local economy and environment. Through its efforts, thirty-five community leaders were trained in collaboration with the training organisation, Smart, and supported in developing and implementing community projects after the training. Since the training, participants have organised over 20 workshops and community actions involving over 1,500 people from eight different communities. Odraz also established a Community Development Coordination Network and published a training manual on community mobilisation.

Source: USAID 2005

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75.   The Shanghai Conference also revealed a preference among developing countries for South-to-South learning. In support of this approach, donors are examining the important role that large emerging markets like India or China, and middle-income countries such as Brazil and South Africa, are playing in supporting poorer countries through the provision of new institutional models as well as access to expertise and knowledge. OECD donors can facilitate this process, as several donors have done in linking capacity development experiences in Brazil and poorer African countries in the field of HIV/AIDS.

76.   Non-governmental actors in the private sector and civil society are crucial sources of capacity that can be unleashed to complement and improve the effectiveness of the public sector. NGOs, including think tanks and training organisations, can be of use in both implementing capacity development plans and monitoring the outcomes of plans implemented by government. Private sector organisations can play an important role in supporting the government in capacity development for the delivery of services. The private sector and civil society can also set benchmarks in their own service delivery against which public sector performance can be assessed. **Box 10** gives an example from Sri Lanka.

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[27]   Logical Framework Analysis (LFA) is a project-planning technique involving an effort to work back from agreed goals to defining the outputs and inputs that would be necessary to achieve them and the indicators and data that would be required to monitor progress at each level. ZOPP is the German acronym for Goal-Oriented Project Planning, which is essentially the same technique.

Box 10. Sri Lanka: Developing independent domestic capacity for poverty analysis

Recognising the need to better understand the impact of development interventions on poverty, the Sri Lankan Ministry of Finance jointly with Germany initiated a process to develop in-country capacity for analysing poverty. As a first step and two-year pilot initiative, the GTZ supported Poverty Impact Monitoring Unit (PIMU) was created to develop appropriate methodologies for poverty impact monitoring and provide its expertise in the form of demand oriented services to clients.

Following promising results during the pilot phase, PIMU was asked to work towards the institutionalisation of the professional service. This led to the establishment of the Centre for Poverty Analysis (CEPA), a Sri Lankan non-profit company. CEPA works on commercial terms by offering fee-based research and advisory services on poverty issues. Additionally, CEPA provides technical training on poverty assessment and monitoring for local specialists.

CEPA has gained broad-based acceptance for the quality of its services. It receives a large number of assignments from government departments and works not only for several major international donors but also for national NGOs. Currently, CEPA is carrying out a number of Poverty and Social Impact Assessments on critical and controversial PRSP issues. The Centre has contributed to creating sensitivity to poverty-related issues, as well as developing relevant know-how and capacities amongst Sri Lankan and donor-supported development initiatives.

Being in its fifth year of operations, CEPA has consolidated programmatically, financially and institutionally. It is expected to play a significant role as an independent professional organisation in the field of poverty analysis and poverty reduction strategies.

Source: GTZ 2005

The individual level

77.   Educated and capable individuals are an obvious precondition for capacity development. The lessons of experience are that the spread of education and build-up of professional skills and knowledge are not *sufficient* to develop capacity, because of the importance of organisational and institutional constraints. However, they remain necessary.

78.   **In this context, there may be a case for large new investments in training capacity.** In some countries, it may be time to be concerned less exclusively with primary and secondary schooling and give greater attention to rebuilding national training organisations – public and private – and the institutional conditions for them to work well. The Commission for Africa has recently made a strong general argument for renewed efforts to support higher education and science and technology.

79.   **Donors should be clear, however, about the role that such initiatives are to play within the wider field of capacity development, and not just revert to the types of programmes supported in the past**. The rebuilding of training capacities needs to be adjusted to both modern technological possibilities, and the lessons of past success and failure.

80.   On the first aspect, the internet makes connectivity to global knowledge easier and increasingly affordable. It supports multi-directional knowledge acquisition and knowledge sharing, rather than knowledge transfer. This crucial change must be reflected in programme designs. Interactive computerised learning may obviate large-scale physical infrastructure, while demanding greater investment in information technology.

81.   Secondly, the build-up of skills needs to be integrated with the means of deploying them. The traditional "capacity building" tools of TC and training have often proved ineffective in helping to improve performance because they have not been linked to the necessary organisational and institutional developments. Experience suggests that most benefits come from highly customised and demand-driven approaches that take context into account and link the focus and design of training to organisations' capacity development strategies. This implies approaching capacity development in an integrated way, so

that individual skills and the organisational settings in which they can be put effectively to work are created simultaneously. Some of the lessons learned from long-running US-funded higher education programmes for Africa are relevant **(Box 11)**.

Box 11. Lessons learned about capacity development through long-term training

USAID's African Graduate Fellowship (AFGRAD) and African Training for Leadership and Advanced Skills (ATLAS) programmes were evaluated over the whole period 1962-2003. The following are some of the lessons drawn:

- It is better to aim at institutional changes in key organisations than to focus on improving the capacity of individuals. Not only does this lead to improvements in organisational performance, but the impact on the individuals is more beneficial.

- The gains to individuals of long-term overseas training in the US include changes in work attitudes, critical thinking, and other "non-technical" attributes (such as self-confidence). These qualities may be less easily instilled by short-term training, yet they may be among the most important for making a measurable difference in trainees' home countries.

- Having a critical mass of staff in a particular organisation that have been trained abroad in the same country may be a factor in making changes more possible, more sustainable and more effective. If so, this is an additional factor in favour of a long-term and selective approach targeted at key organisations.

- The costs of different training options should be assessed in relation to the desired impact. Of critical importance is the cost of obtaining the desired impact, not the cost of providing the training.

- Follow-up support in organisations where trainees are employed should be factored into programmes. Maintaining contact with returned trainees can help those who encounter difficulties in introducing changes in their workplaces, a situation reported particularly by women. This, too, calls for a long-term commitment by the donor.

Source: Adapted from USAID, *Generations of Quiet Progress: The Development Impact of U.S. Long-Term University Training on Africa from 1963 to 2003.*

Learning from experience and sharing lessons

82.   **Future capacity development initiatives should be designed to maximise learning.** What is known about capacity development efforts in the past is derived from a series of useful evaluation studies. But the learning and dissemination of lessons, both positive and negative, has been needlessly slow. There should be more monitoring and evaluation of capacity development experiences and more effective dissemination of the results across countries and agencies. This applies at all three levels.

The enabling environment

83.   **High priority should be given to extracting further lessons about what works and what does not in terms of changing the enabling environment**. Experiences in the transformation of the institutional "rules of the game" will be of particular value. Where there is the possibility of significant learning at this level, this should be recognised not only in the design of the programme – with a set of outcome objectives clearly defined – but also in its monitoring arrangements. This will enable both internal learning in the programme, so that any necessary adjustments can be made, and the dissemination of any wider lessons to the relevant group of other countries (those where the institutional factors are broadly similar).

84.   **The monitoring should extend to whether the donor support is being delivered in a way that assists country ownership of capacity development efforts**. This may be covered by the general monitoring of the *Paris* targets on harmonisation and alignment. However, almost certainly a more specific and in-depth scrutiny of the aid relationship as it relates to capacity development efforts will be justified.

85.   **An independent form of monitoring, capable of generating objective judgements, will usually be the most desirable.** Monitoring missions staffed by distinguished individuals who are closely associated with neither donor nor partner interests can help in establishing objective benchmarks and

tracking progress by both parties over a number of years. The experience of independent monitoring in Tanzania and Mozambique suggests that it adds significant value. It helps overcome the inherent imbalance of power between donors and recipients and is well suited to the sensitive nature of the issues that need to be tackled. Although it has been applied so far to general issues in the aid relationship, it would be suitable for a more specialised application in the field of capacity development.

The organisational level

86.   **Assuming capacity-development objectives have been well defined thought needs to be given to selecting and applying corresponding measures of achievement**. This is a challenge. There are not many documented examples of the monitoring of capacity itself. Most official programmes use measures of performance as proxies for capacity, while NGOs have tended to use "systems" approaches that avoid specifying objectives in detail at the outset.[28] Quantitative indicators may be needed but some form of qualitative assessment may be more appropriate, depending on how the desired outcomes have been defined. **Box 12** provides an example. It is obviously preferable that the monitoring of capacity development outcomes be integrated within a national monitoring system, even if this entails some loss in terms of quality or timeliness.

Box 12. Participatory organisational assessment for setting objectives and monitoring

The Capable Partner Program (CAP) of USAID seeks to strengthen the organisational and technical capacities of NGOs, networks, and other civil society organisations. Objectives are defined using a participatory organisational assessment framework, which generates quantitative and qualitative baseline data on six aspects of organisational strength. Based on this assessment, CAP provides capacity-enhancing Technical Assistance to address an organisation's most urgent development needs. Data are collected on the same dimensions after the TA input, and scores are compared to assess the degree to which the desired outcomes have been achieved. Projects in Ghana and Lebanon have used this method.

Source: Adapted from USAID 2005

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87.   **One instrument for assessing the outcomes of capacity development initiatives in service-providing sectors is collecting the views of intended clients or end-users**. Although it continues in the tradition of using proxy measures, such feedback is an effective way to gauge whether capacity is improving as a result of the initiative. As one analyst has put it, "Whatever the imperfections of client voice and approval in measuring ultimate downstream results, they provide reliable indications of what matters to the intended beneficiaries. At the end of the day, it is better to have approximate information about important issues than to have precise data on those that may be irrelevant to human development".[29]

The individual level

88.   **Monitoring of success at the individual level is not just about skill enhancement.** It is standard procedure in training to obtain feedback from individuals on its effectiveness as a learning experience. However, a principal limitation of traditional TA and training approaches has been that even when learning has been very effective, capacity has not been enhanced, because the individuals do not have the opportunity or incentive to apply these skills in their jobs. Assuming that the programme has been designed with this likely disconnect in mind, the monitoring arrangements will be expected to track the individual's experience back into the working environment, and if necessary into his or her subsequent professional career (since important benefits in terms of organisational capacity could accrue elsewhere).

Summing up on operationalising the new consensus

89.   In capacity development, general formulas and models do not produce sustainable benefits, and what is needed is an active search for approaches that achieve a *best fit* with the particular circumstances of

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[28] Watson, A. "Monitoring and Evaluation Aspects of Capacity and Capacity Development", Working Paper, ECDPM Study on Capacity Change and Performance, Sept 2005.

[29] Hauge, A. "Accountability-to what end?" Development Policy Journal, 2, UNDP (2002).

the country, sector or organisation that is under consideration. In this section, discussion has focused on the practical implications of this approach. The sub-sections have raised issues for operational staff to consider in taking four notional steps in programme design for capacity development.

90.   Suggestions have been provided on:

- Tools and topics for understanding the international and country context for capacity development initiatives.

- Ways to go about identifying and supporting factors in country ownership.

- Issues likely to need critical scrutiny when providing support to capacity development initiatives.

- How to support the conditions for learning from experience and sharing the results with others.

IV.   CAPACITY DEVELOPMENT IN FRAGILE STATES

91.   This paper has recognised a growing international consensus about the importance of the capacity development objective and how it is likely to be achieved. Stress has been placed on recognising capacity development as a process that is driven endogenously; on the resulting importance of country policy ownership; and on the need for donors to limit themselves to encouraging and supporting country efforts. This implies that capacity development is most likely to be successful where national policies are strong and stable and that there will be particular difficulties where it is not. However, this does not mean that capacity development concerns are not relevant in the group of countries currently referred to as "fragile states". **On the contrary, capacity development is no less relevant in fragile states than in other developing and transitional countries.**

92.   The approach to capacity development always depends on country circumstances, and this applies in an obvious way in this section of the paper. The new attention being given to "fragile states" serves the useful purpose of focusing thinking on how to support reconstruction and development efforts in a range of more difficult aid environments that are at risk of being neglected by the international community. However, the category includes a diverse range of countries. They include both countries recovering from conflict, and regimes that are chronically weak or in decline for reasons unrelated to conflict. Social and political backgrounds vary enormously. This means that the degree to which there is political will of the sort needed for successful capacity development differs markedly across the countries. Similarly, the degree to which there is residual capacity from earlier periods of the country's history is quite variable. **A useful rule-of-thumb is: understand the country context and work towards an approach that seems likely to work in those specific circumstances.**

93.   Focusing on capacity development may be a feasible way of engaging different parts of a society in new efforts oriented towards the achievement of development goals. **Box 13** illustrates the point. The urgency of developing capacity, at least selectively in key areas, may be – and be seen to be – especially great in post-conflict and other unstable situations. Capacity is needed to restore basic services quickly; to enable national dialogue and reconciliation; and more broadly to tackle the potential causes of further conflict or social or political breakdown. **The priority capacities for development should be those that contribute directly to reducing fragility.**

Box 13. Conflict management in Indonesia: a model for fragile states?

Between April 2000 and April 2002, Mercy Corps a U.S.-based non-governmental organisation, implemented a programme funded by the United States Agency for International Development (USAID) in Maluku, Indonesia. The goal of the programme was to alleviate the humanitarian crisis there through the provision of emergency assistance to displaced households and conflict-affected communities. A unique feature of this effort was that Mercy Corps did not implement programme activities; rather the effort was channelled through local partners to ensure sustainability of programme initiative and to build local capacities for peace and development.

Mercy Corps worked with local partners by disbursing grants for their activities and providing training, as well as other assistance to develop capacity. Mercy Corps took this approach based on the belief that local organisations were best placed to respond to the needs to the local population. At a practical level, the programme sought to build local capacity and promote opportunities for peace by building trust among the polarised Muslim and Christian communities. To achieve this, local partners receiving support from Mercy Corps recruited staff from both communities and formed joint teams of Muslims and Christians. This approach helped to foster understanding between the communities and thus influenced public opinion.

Source: USAID 2005

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94.   **Experience to date of working in fragile development environments suggests a few general principles.** In fragile environments, development partners need to be highly selective in the instruments they deploy in support of capacity development, and realistic about their expectations. There is the usual requirement to identify the main capacity gaps in respect of core functions, plus an additional need to pinpoint the aspects of state performance that matter most for preventing renewed conflict or collapse. In a preliminary assessment, it will be particularly important to understand what has happened to any previously existing capacity: has it disappeared, or is it dormant and merely invisible? The challenges and entry points for capacity development will vary according to the answers to these questions.

95.   **As in other environments, donors need to identify likely partners and work with them consistently over the short, medium and longer terms**. They should be prepared to think through the challenges concerning the enabling environment, as well as the individual and organisational levels of capacity development, with those partners. This may not come naturally to either side. As the PNG case illustrates (Box 14), local stakeholders may adopt a more traditional view of capacity building than the one set out in this paper.

Box 14. Perceptions of the capacity problem in PNG's health sector

The ECDPM study for AusAID of Papua New Guinea's health reforms found a series of contextual factors undermining sector performance and efforts to enhance capacity. These had the potential to drain resources and confidence away from important change processes. Some of the successes in the sector highlighted the importance of specific factors, such as attitudes and skills of managers in dealing with important contextual variables, or the ability of organisations or particular units to isolate themselves from "dysfunctions" in the broader system. However, the report concludes by underlining the value of relying on a systems perspective and thinking in terms of a complex "capacity ecosystem".

The study team also reflected on how PNG stakeholders think about the issue of capacity. It appears that capacity is seen substantially (although not exclusively) by most PNG stakeholders as a question of skills, or as an organisational issue. "Higher-level" issues are often described as risks rather than capacity issues to be "managed".

Source: Joe Bolger, Angela Mandie-Filer and Volker Hauck, "Papua New Guinea's Health Sector: A Review of Capacity, Change and Performance Issues", Maastricht: ECDPM, Discussion Paper 57F, Jan 2005, Summary.

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96.   The following are some of the lessons that donors have drawn so far from experiences of working on capacity development in fragile states:

- **Where state capacity is weak but political will is present, capacity development efforts need to focus selectively on core state functions with a view to making the state at least minimally effective in providing for its people**. Core functions may include macroeconomic and public financial management, which create the conditions for the restoration of the full range of public

services in the medium term, as well as the obvious immediate priorities of restoring essential services and security.

- **Planning tools developed for use in post-conflict environments, such as the Transitional Results Matrix, may be useful in embedding support for capacity development.** Although not a capacity development instrument as such, this tool aims to draw together security, diplomatic and development efforts in support of a country. It has been used to good effect in places as diverse as Timor-Leste (with high anticipated resources and high expectations) and the Central African Republic (with little money and a legacy of mistrust).

- **External support to capacity development should respect the principle of endogenous change and fostering country leadership even when the practical conditions appear to prohibit such an approach.** Even in the most difficult contexts, existing local institutions and the associated social capital are essential starting points. By defining realistic goals, exercising selectivity and subordinating immediate steps to a long-term vision, gradual progress can be made without implanting externally-derived models that do not fit the local situation.

- **It is important that new capacity development initiatives do not erode or duplicate existing capacity, in individual, organisational or enabling environment terms.** This can happen where donors build parallel systems of delivery and accountability. It is particularly difficult to avoid this where donors have moral or political objections to collaborating with the country authorities. But even where it is not possible to support the government, it may be possible to "shadow align" with state systems, such as budget and planning processes, by ensuring that any separate delivery mechanisms use the same categories and rules as apply in the country's public sector.

- **In other cases, sectoral selectivity, or "partial alignment" can deliver strategic pay-offs.** In Afghanistan, for example, some investments in capacity development in the health sector during the Taliban regime produced only modest returns at first. At the end of the regime, however, service delivery advanced rapidly on the foundations that had been laid earlier. This was also true of Nigeria, where a robust network of NGO service delivery in the health sector allowed gains in health to be sustained and built upon after the transition to democracy.

- **Even in states with acute governance challenges, modest capacity development may still be achievable.** There is some evidence to suggest that capacity can survive in the most unfavourable circumstances. Where national governments are not responding to the needs of the people, more emphasis can be placed on non-state actors. The example of donor support to tackling HIV/AIDS in Burma – a state with some capacity but without political will – illustrates how direct assistance to non-state actors can be balanced with the necessary engagement and communication with state institutions.

V.   MOVING FORWARD: UNFINISHED BUSINESS

97.   **The experience of the past five decades has shown the need for donors to align with and support country-driven approaches and systems for capacity development.** The new consensus on this point provides fresh opportunities to improve on the results of capacity development efforts. These opportunities are becoming even more salient as we enter an era of scaled-up aid flows to the poorest countries, with the corresponding potential to increase the resources available for well-conceived initiatives.

98.   But it is clear that rising to this challenge will not be easy. **Significant efforts will be required.** Both donors and their developing country counterparts will have to live up to commitments they have

made. At the same time, more creative, practical thinking is going to be needed in all the areas highlighted in this paper.

99.   Moving on from "right answers" to a "best fit" approach to capacity development implies stepping up donor efforts to understand country contexts, identify sources of country-owned change, design appropriate forms of support, and share lessons from experience. Experience tells us that there are no quick fixes or easy formulas that work in all circumstances. Nevertheless, the paper has been able to point to good advice on many of the particular points that arise in thinking systematically about capacity development in a particular setting.

100.   **If the argument of the paper is right, the following are key items in the unfinished business of capacity development. These are the points upon which future work by GOVNET will focus:**

- **Consolidating the new consensus on capacity development as a necessarily endogenous process of unleashing, strengthening, creating and maintaining capacity over time.** This message needs to reach all parts of the international aid system and every level of each agency. It must become a central topic of policy dialogue and debate at country level. That implies changes in donor agencies in terms of priorities, internal incentives, skill profiles and operating procedures. **GOVNET will help** by focusing its future work on developing operational advice targeted at practitioners leading capacity development thinking within agencies or participating in policy dialogue on capacity issues at country level.

- **Identifying and addressing the systemic factors currently discouraging the kind of country-owned efforts to develop capacity visualised by the *Paris Declaration*.** We have learned that capacity development cannot be tackled successfully if it is treated as just a training issue, or as a matter for individual organisations treated in isolation. Donors and partners together are going to have to devote more attention to understanding why the enabling environment for capacity development is often weak and how this can be addressed. **GOVNET will help** by sharing more widely the October 2005 lessons-learned study on Power and Drivers of Change analyses, focusing specifically on how these approaches may help in understanding the enabling environment for capacity development.

- **Making sure that the international community plays its part by providing support in ways that encourage, strengthen and do not displace initiatives by leaders and managers in partner countries. GOVNET will help** by making available case material and examples of good and bad practice in supporting capacity development strategies set by partner governments at the national level or in specific sectors or organisations. This operational guidance will assist donors to make progress with respect to Indicator 4 of the *Paris Declaration*'s capacity-related commitments: the provision of donor funds through coordinated programmes in support of government-led strategies. The guidance will be disseminated through the channels established by the Working Party on Aid Effectiveness to monitor and support implementation of the *Paris* commitments.

- **Operationalising the new vision in ways that fully integrate human capital formation and Technical Cooperation with the institutional changes and organisational reforms needed to put skills and advice to effective use.** Future programme designs should be expected to take full account of the lesson learning summarised in this paper, including the importance of incentives and informal "political economy" factors in linking the individual, organisational and enabling environment levels of the capacity development challenge. **GOVNET will help** by ensuring that its operational guidance reflects fully the lessons learned on these points.

- **Working towards policy-relevant disaggregated Technical Cooperation statistics**. Without prejudice to the new emphasis on outcomes, we need better data on the range of donor inputs that are relevant to capacity development. The DAC Working Party on Statistics (WP-STAT) is already undertaking work to disaggregate DAC statistics on TC. **GOVNET will** work with WP-

STAT, first to assess the data gathered so far in the context of the recommendations of this paper, and second to consider whether new subcategories of TC could be formulated and introduced in aid reporting to allow precise assessments of whether TC is contributing to capacity development as an outcome.

- Constructively using the orientations in this paper in all country situations, while drawing and building further upon recent experience of capacity development in fragile states. Well targeted and appropriately delivered capacity development may be one of the keys to reducing state fragility, which is recognised as one of the principal challenges of our time. GOVNET will help by providing further operational guidance on handling the particular challenges and trade-offs involved in capacity development in Fragile States. This will be conducted in collaboration with the Fragile States Group in the areas of service delivery and state building. Guidance will be disseminated through the links to country teams undertaking the implementation of the *Principles of International Engagement in Fragile States* and through donor headquarters.

ANNEX 1   VICIOUS AND VIRTUOUS CYCLES OF EMPOWERMENT

FIGURE 1.4.1: VICIOUS CYCLE OF EMPOWERMENT
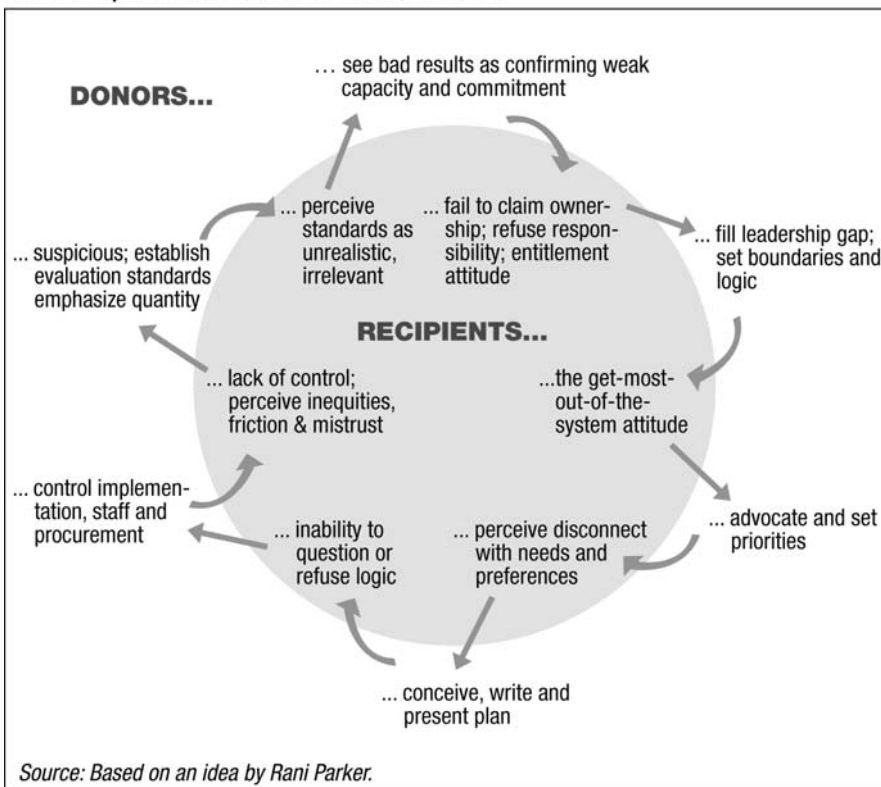

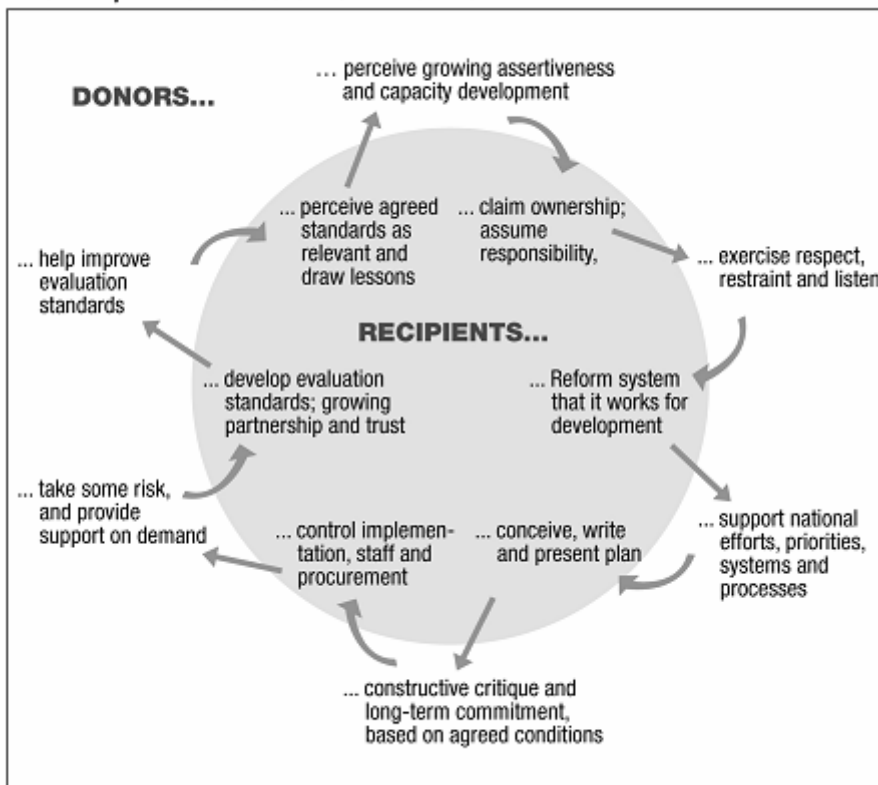Source: Based on an idea by Rani Parker.

FIGURE 1.4.2: VIRTUOUS CYCLE OF EMPOWERMENT

Source: UNDP, "Ownership, Leadership and Transformation", New York (2003), p. 42/43.

ANNEX 2 UNDP'S DEFAULT PRINCIPLES FOR CAPACITY DEVELOPMENT

Recognising that country contexts differ widely and that prescriptions do not work, they offer a fairly concrete starting position that can be adapted by the stakeholders on country level. They are not meant to be prescriptive but rather provide some fairly clear starting propositions to permit a genuine exchange on options. Rather than accepting "business as usual" approaches, the partners at country level can customise their rules of engagement for capacity development.

1. **Don't rush. Capacity development is a long-term process.** It is not amenable to delivery pressures, quick fixes and short-term results seeking. Engagement for capacity development needs to have a long term horizon and be reliable.

2. **Respect the value systems and foster self-esteem**. The imposition of alien values can undermine confidence. Capacity development requires respect. Self-esteem is at the root of capacity and empowerment.

3. **Scan locally and globally; reinvent locally.** There are no blueprints. Capacity development means learning. Learning is a voluntary process that requires genuine commitment and interest. Knowledge transfer is no longer seen as the relevant modality. Knowledge needs to be acquired.

4. **Challenge mindsets and power differentials**. Capacity development is not power neutral and challenging vested interest is difficult. Frank dialogue and moving from closed curtains to a collective culture of transparency is essential to promote a positive dynamic for overcoming them**.**

5. **Think and act in terms of sustainable capacity outcomes.** Capacity is at the core of development. Any course of action needs to promote this end. Responsible leaders can inspire their institutions and societies to effectively work towards capacity development.

6. **Establish positive incentives.** Distortions in public sector employment are major obstacles to capacity development. Ulterior motives and perverse incentives need to be aligned with the objective of capacity development. Governance systems respectful of fundamental rights are a powerful incentive.

7. **Integrate external inputs into national priorities, processes and systems.** External inputs need to correspond to real demand and need to be flexible to respond effectively to national needs and possibilities. Where such systems are not strong enough they need to be reformed and strengthened, not bypassed.

8. **Build on existing capacities rather than creating new ones**. This implies the use of national expertise as prime option, resuscitation and strengthening of national institutions, and protecting social and cultural capital.

9. **Stay engaged under difficult circumstances**. The weaker the capacity the greater the need. Weak capacities are not an argument for withdrawal or for driving external agendas. People should not be hostage to irresponsible governance.

10. **Remain accountable to ultimate beneficiaries**. Even where national governments are not responding to the needs of their people external partners need to be accountable to beneficiaries and contribute to the responsibilisation of national authorities. Sensible approaches in concrete situations need to be openly discussed and negotiated with national stakeholders.

Source: UNDP, *Ownership, Leadership and Transformation*, NY (2003), p. 13