EuropeAid

Aid Delivery Methods Concept Paper

a contribution to development thinking

Institutional Assessment and Capacity Development

Why, what and how?

European Commission

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1. Introduction

This note offers a *conceptual framework* for dealing with 1) institutional and capacity assessment; and 2) capacity development issues, mainly in the public sector areas. This framework will be particularly useful in the in the preparation of support to sector programmes and budget support exercises. More generally the objective of the note is to enable readers to engage in dialogue with stakeholders and specialists about issues regarding institutional assessment and capacity development, as well as support to capacity development, in design and implementation of sector or budget support operations.

The note reflects recent international debates about capacity issues and seeks to translate them into more operational guidance.

The text supplements existing key guidance on Aid Delivery Methods produced by EuropeAid Cooperation Office as the "Guidelines on EC support to Sector Programmes" and "Guide on Budget Support in third countries", in particular it completes the sections on "Institutional Assessment" and provide additional references about capacity assessment and capacity development. It also complements the Project Cycle Management Guidelines providing a conceptual framework particularly relevant for large projects intervening in the public sector.

The note will also be used as reference within the Aid Delivery Methods training programme.

Only two abbreviations are used in the following text: CD for capacity development and TA for technical assistance.

The note has the following sections:

- Section 2 presents *the rationale* for working with institutional assessment and capacity development, and introduces how key concepts are used.

- Section 3 summarizes in *6 boxes* the step wise process proposed to orient institutional assessments and approach capacity development issues.

- Section 4 develops the *assessment process* in a step-by-step manner.

- Section 5 offers some basic dimensions of organisational assessment, which must be applied to get *from symptoms to causes* of a given level of performance.

- Section 6 looks at typical characteristics of *capacity development and change processes.*

- Section 7 discusses *the role and support of donors* in relation to assessment of capacity, and in relation to capacity development.

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2. Dealing with Capacity Issues

2.1 Why is a focus on capacity and capacity development important?

Making public sector organisations work better is one of the most persistent and difficult challenges in development and development cooperation. At the same time, nothing is more crucial for achieving sustained progress, growth and poverty reduction.

Aid must also be tailored to existing capacity to ensure effectiveness and to avoid unintended distortions. The size, scope and modality of aid influence partners' capacity and prospects for capacity development (CD). Assessing institutions and capacity is thus a central element of preparing and implementing any kind of support, not least support for sector reforms following the sector approach and in supporting national development strategies through general budget support programmes.

> **Tips& tricks:**
> **Understanding organisations and change....**
>
> Look at your own organisation and how easy – or difficult! – it is to understand how it really works, and how easy or difficult it is to change it.
>
> In many cases, looking at capacity and change in our own organisations may provide a dose of healthy realism when it comes to appreciate the difficulties involved in understanding other organisations and promoting change there.

Assessing capacity is also a prerequisite for deciding if and how donor support to CD is feasible. The traditional instruments used by development partners – equipment, technical assistance, training and knowledge transfer – have had a very mixed record of success. Sometimes the instruments are the problem – they may simply be the wrong answer, based on a poor diagnosis of needs and options. Sometimes the problem is the way in which the instruments are used – supply-driven by development partners rather than driven by sufficient domestic demand. Finally, it is sometimes the broader circumstances that are not conducive for CD – the instruments at donors' disposal are simply not relevant to the situation at hand.

It is both complex and delicate to assist others in developing capacity. Capacity development is change – and change often hurts. CD support, however well intended, is an intervention affecting the lives of people and organisations, for good or bad – or both. Chances are that change, despite intentions to the contrary, will imply wins for some, losses for others.

Outsiders often have a limited understanding of – and feeling for – what is going on inside other organisations. In particular, is it much easier to identify poor performance than the causes for this poor performance and the remedies to enhance it. Capacity assessments made by outsiders risk being based on superficial observations of what an organisation does not do or does not have – e.g. that it does not perform efficiently, that it does not have a proper budget and planning system etc. Such assessments are just like observing that a person has fainted because the person does not walk and does not talk etc. – e.g. by observing what the person is not doing. It is much more difficult – but of course also more important – to diagnose the causes leading to the fainting and prescribe the right cure which will both allow the person to recover and to avoid future fainting.

Assessing capacity serves as input in different processes and may support interlinked decisions on:

- Strategic and operational choices about overall levels, focus areas, operational modalities and timing of aid. Weak capacity may imply that less funds can be effectively used, and that more focus on capacity development is required.

- Selection of key capacity issues to be included in the ongoing policy dialogue, in monitoring, or as indicators.

- Decision about if and how development partners can support capacity development (CD) processes of partners.

2.2 What does the terms mean: Capacity, capacity development and support to capacity development?

There are no agreed universal definitions of the many key concepts used in relation to institutions, organisations, capacity and capacity development. Different social science disciplines – political science, economics, sociology, organisational science, psychology and pedagogy – emphasize different aspects, and within the disciplines there are few if any uncontested conceptual platforms.

Broadly taken, *capacity* can be defined as the ability to perform tasks and produce outputs, to define and solve problems, and make informed choices (¹).

Capacity development (CD) is the process by which people and organizations create and strengthen their capacity over time. *Support to capacity development* is the inputs and processes that external actors–whether domestic or foreign– can deliver to

> **Tips& tricks:**
> **Distinguish between the concepts!**
>
> Discussions about CD often focus on definitions. This is rarely fruitful, but it is extremely useful to distinguish clearly between:
> - **Capacity** – what is there?
> - **Capacity development** – how does capacity change?
> - **Support to capacity development** – how can such change processes be supported by outsiders?

catalyze or support capacity development of persons, an organisation, or a network of organisations (e.g. in a sector, or even at the public sector level).

This note focuses on capacity and CD of organisations rather than of individuals. As programmatic approaches advance, the level of analysis is increasingly networks of organisations, including non-public organisations: if, for example, the agricultural sector is targeted for support, then farmer's unions, credit institutions, and marketing boards may be just some of the crucial actors to involve in any efforts to enhance capacity.

(¹) This definition is similar to the one proposed in a draft Good Practice Paper by OECD/DAC ("capacity is the ability of people, organisations and society as a whole to manage their affairs successfully"). In the definition used here, the level of society as a whole is not considered.

3. Overview: Six key messages

The boxes below provide an overview of the basic line of thought in the note:

Consider organisations as "open systems"
- They are *embedded in a context*
- They get *inputs or resources*
- They use their capacity to process these inputs to outputs (products and services)
- Their performance and change prospects depend on the context, the inputs and the capacity – all have to be considered!

Read more in section 3…

Focus on products and services
- *Look at the outputs of the organisation(s) – product and services.* What are they? What should and can they realistically become?
- Capacity development must result in *specific changes in outputs*
- *Avoid, initially, focusing on CD support elements* (training, consultants…).!

Read more in section 4…

Explore the context, the inputs – and then go inside!
- Before looking inside the organisation, explore structural and institutional *drivers of and constraints to change* in the context
- Look for *stakeholders* – they make and break change!
- Consider the *inputs and resources*
- Then, *finally, look at the rest of the "inside" elements* – now there is a chance to understand why a system works as it does, rather than just seeing why it does not work!

Section 4 has more…

Dig deeper to get a solid diagnosis
- Look for both *formal and informal* aspects of organisations!
- *Look for both the "functional-rational" dimension and the "political" dimensions of organisations* – the latter factors can have both positive and negative aspects!
- Do *not* assume that organisations are only driven by *functional-rational considerations!*
- Do *not* assume they are only driven by negative *self-interest, internal politics and power!*
- Be pragmatic – not everything needs to be known, or written down, at a certain point in time

Read more in section 5…

Change and capacity development are mostly domestic processes
- *External* factors are often powerful drivers of capacity change – but committed insiders must lead.
- "Political" factors (e.g. power to push changes through; stakeholder pressure) are often *more* important than "functional-rational" factors (e.g. legal mandates, organisational structure).
- A change *strategy* is required
- Aid agencies can *contribute* to capacity development, but cannot drive the process.

Section 6 elaborates on this…

Roles of and instrument for donors
- Make sure that *the partner can and will lead!*
- Assist the partner to define realistic CD targets in terms of *changes in organisational outputs.*
- *Develop the partner relationship* to build on trust and a shared view of key constraints on and opportunities for capacity development, inside and outside the organisation(s).
- Finally, play a catalytic role, engage to build up demand for change, provide access to knowledge, pilot different approaches, facilitate dialogue between domestic stakeholders.

Section 7 has more …
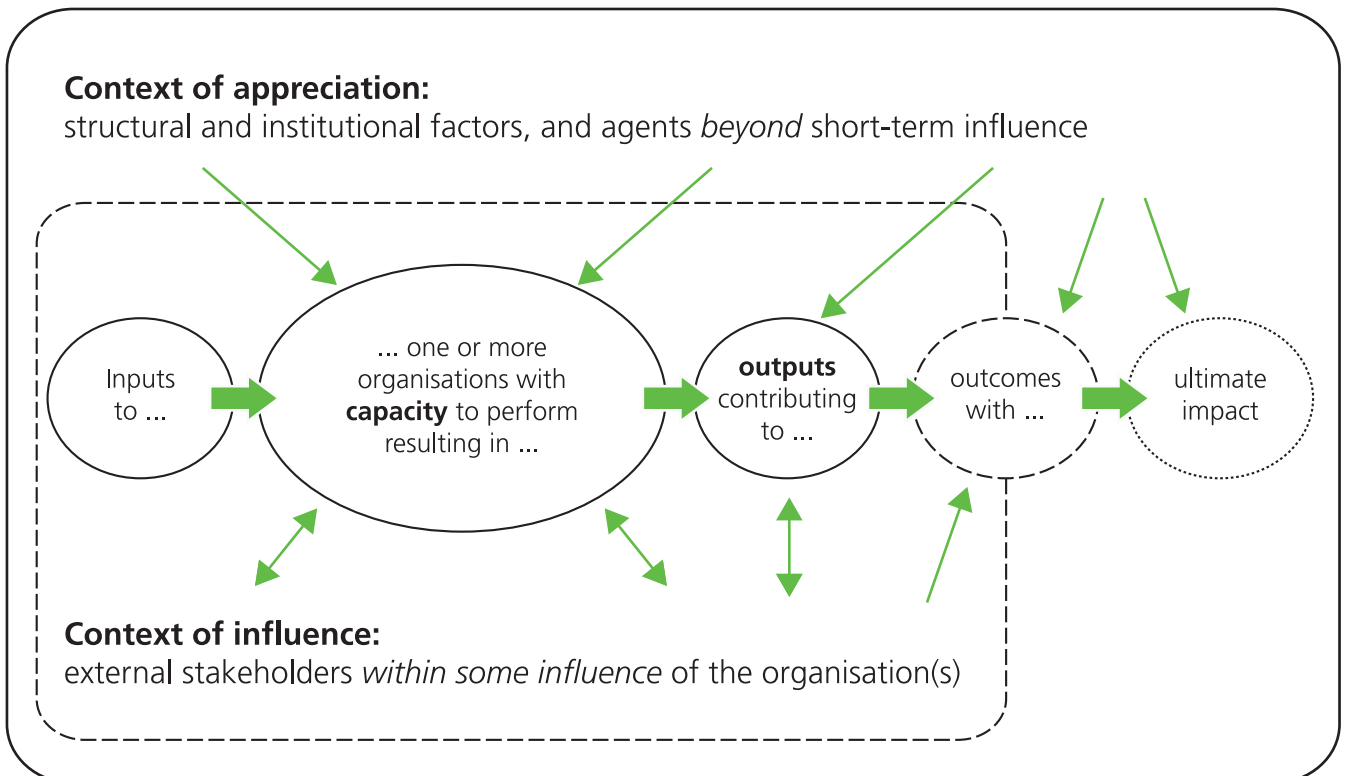
4. Assessing Capacity in 5 Steps

4.1 The open systems approach: Looking at capacity in the context

To assess capacity, it is necessary to focus on organisations in their context. No organisation and no network of organisations function without constantly being influenced by the context, and at the same time influencing it. Like organisms, organisations are in a constant exchange with the environment: raw materials enter, products and waste leave, staff come and go, information and money flows in and out over the multiple open boundaries which together delimits the organisation as a system.

This *open-systems approach* shown in figure 1 has proved valuable as a framework for capacity assessment. Any organisation (or a unit within an organisation, or a network of organisations) is viewed as a system consisting of interacting and interdependent elements embedded in a context from which the organisation obtains inputs or resources, uses the input to organise production processes, and produces outputs. Organisational survival and growth depend on adapting to and influencing the changing environment, as well as on producing outputs that are valued by external stakeholders – which again enables the organisation to obtain resources (either from selling in the market or getting resources from a government or another source). 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.

Figure 1: Analytical framework: organisation(s) as open system(s)

Context of appreciation:
structural and institutional factors, and agents *beyond* short-term influence

Inputs to …

… one or more organisations with **capacity** to perform resulting in …

outputs contributing to …

outcomes with …

ultimate impact

Context of influence:
external stakeholders *within some influence* of the organisation(s)

Tips& tricks:
Look within and beyond boundaries

The strength of the open-systems perspective is that it forces analysts, managers and agents of change to *look both within and beyond organisational boundaries* to assess capacity and identify sites of capacity constraints and potentials for improvement.

Capacity is *inside* the boundaries of an organisation or a network of organisations. To use a machine metaphor, the capacity of a car is in its engine, chassis, brakes, tires etc. But the *capacity is shaped and influenced by the context*: Poor (or no) gasoline, poorly maintained roads and sloppy repair shops will quickly influence performance, and indeed make initial capacity vanish. Adaptation to the context – driving less, driving slowly, and influencing the context by e.g. paying a little extra for the best among the repair shops - will make the capacity of the car last longer.

In principle, the open systems model indicates the key factors and dimensions to address to assess capacity. In practice, some may be more relevant than others, and it is useful to proceed in a step-wise fashion.

Tips& tricks:
Beat around the bush!

Resist the temptation to start assessing capacity by entering the front door and ask for organisational charts, mission statements, medium term plans and CD plans…
Instead, first consider the organisation(s) as a "black box" – and look at what comes out of it, then scan the environment in which it works, then look at what it takes in.
And then, finally, go inside the box – and by invitation only!

Contrary to what intuition and tradition may prescribe, *it is strongly recommended not to start looking directly at the capacity of the organisation(s)!* Traditionally, the first question asked is: what is the structure of the organisation, how does the organisational chart look like? Next, questions about staffing levels, mission and development plans often follow. Valid as these questions are – at a certain stage – they often lead to a capacity assessment that never looks beyond the narrow boundaries of the organisation(s). The traditional approach tends to keep the nose to the ground, and little sky and horizon is seen in that way.

Focusing on the organisation may work reasonably well in relatively stable environments well-known to analysts, and in relation to relatively well-functioning organisations functioning in fairly competitive markets or within fairly clear and well-working external legal frameworks, and with relatively consistent incentives. However, for public sector organisations in developing countries, this is rarely the case. Therefore, it is recommended to *initially* consider the organisation(s) as a "black box": investigate what it produces, the context in which it produces, and the inputs it can get hold on – and only then, at last, go into the box and look at the nuts and bolts.

In the metaphor of the car, the assessment would start by looking at how often the car transported what amounts of goods or passengers and whereto, the quality of the roads, the supporting facilities and the gasoline supply. Only then would the hood be lifted and the engine taken apart.

4.2 Step 1: Identify the vantage point for assessment

Before starting the assessment as such, the very first step is to determine the set of organisations and actors to be analysed. This should be done from the vantage point of the *objectives of the programme* for which support is being considered – whether a sector, a thematic or an overall poverty reduction programme. If a project is considered, the objectives of this would indicate the vantage point. That is, the organisations and actors are identified by moving backwards from the objectives – the future situation to be achieved. If a poverty reduction strategy is considered, then the objectives will often point to the entire public sector, as well as public-private sector relationships.

The logic of starting from the vantage point of the objectives may sound straightforward, but often capacity assessments depart from a much narrower point of view, focusing only on the agency entrusted to manage the funds of the donor(s). E.g. for an education sector programme support, assessment may narrowly focus on the Ministry of Education, district level entities and individual education centres, because these entities will implement the support. But at least two other organisations may often be crucial for performance of the sector: the Ministry of Finance, influencing if and when funds arrive to the sectors, and the teachers' union, the strength of which may often make or break attempts to influence e.g. classroom performance of teachers.

In most areas of programme support, it will thus be necessary to assess the capacity of *a network of organisations*, which may also include civil society or private sector actors. In a later section, some of the special characteristics of networks will be described.

4.3 Step 2: Focus on the outputs

The outputs are the *direct products and services* of an organisation or a network of organisations, and the immediate effect of organizational performance. The accounts department, for example, is responsible for producing monthly account statements. A teacher training college produce a supply of teaching to students, but is dependent on approval of curricula, examination norms, and skills of trainers which other organisations supply [2]. If, instead, we look at the environmental regulation of pollution arising from animal husbandry, this may require a legal framework, a permit system, reporting procedures, supervision schedules and enforcement activities. Delivering this set of outputs may involve central ministries of the environment and agriculture, county administrations or local governments, and farmers' associations. If focus is on this output, then the capacity of this particular network of organisations has to be assessed.

Tips& tricks:
The vantage point is the future

To identify the organisations whose capacity is relevant, start with the objectives of the national policy, programme or project or consider/select key objectives …….. Then work backwards to identify the significant organisations.

Tips& tricks:
Focus on changes in outputs, rather than CD support inputs

What is the specific change in products and services that CD support would lead to? Answering this question forces partners to look at today's products and services, and discuss tomorrow's in this light.

It is not as easy as it may sound – but far better to start here than to start discussing TA or training!

Outputs contribute to *outcomes*, which again contribute to *ultimate impact*, a familiar result-chain. While development assistance and poverty reduction as such would be primarily concerned about outcomes and impact, the focus on capacity makes it important to focus on the immediate effect of organisational performance: the products and services. They are not within full control of the organisation – nothing really is – but they are under a much higher level of control than outcomes and impact.

As a second step, therefore, it is useful to assess the quality and quantity of the *existing outputs* (products, services) of the various relevant organisations, and *recent trends* in quality and quantity. Outputs are *good proxies* for capacity. Existing output levels will also reflect an initial capacity which most often develops incrementally and gradually, not in great leaps. Output levels may sometimes change rapidly when combined with an infusion of funds and supportive ad hoc capacity – but the underlying, sustainable capacity should not be expected to grow fast.

Also, assessment of outputs brings focus on often relatively *tangible* results of performance. It thus fosters, from the very outset, a *performance-orientation* focusing on results which can help to avoid that CD support ends up focusing on inputs or activities like training and technical assistance, without defining appropriate output indicators demonstrating enhanced performance. That is, CD support should not be defined as a TA-team, or training – but as the specific changes in outputs which the CD support will enable the organisation(s) to deliver on a sustainable basis.

If the vantage point is a very broad strategy – e.g. a poverty reduction strategy – then it is still useful to focus on the key outputs in key sectors that the public sector can and should provide and which are feasible, affordable and sustainable. But clearly, an analysis at this level – often pointing to major public sector reform endeavours – is both a technically and politically very complex affair demanding much more comprehensive assessment processes than those outlined in this note. Asking for the services and products that the public sector can and should produce is, however, still at the heart of the process.

(²) If the output is alternatively defined as "graduated teachers", then the students become part of the organisational inputs (a kind of "raw material"). This may be the view of the College or the Ministry – students might focus on the supply of teaching outputs of the college, not wanting to be treated as an "input".

4.4 Step 3: The context

Structural and institutional *context factors* outside the boundaries of the organisation will influence it, as will the actions of other organisations and individuals. Some factors and actors in the context may be *influenced* by the focal organisation, while others – notably structural and institutional factors – can only be *appreciated* in the short term (e.g., a fall in world market prices, social or gender inequality structures, deep rooted power structures based on patrimonial loyalty-and-reward systems, decisions taken in a donor country to reduce development assistance).

It is useful to look for *structural and institutional factors*, as well as *organisational and individual actors*:

Structural factors are beyond the influence of individuals and short-term decision making. The following factors are often considered important:

- The history of state formation, the authoritative resources and legitimacy of the state, and the relation between the economic structures and the state structures

- Natural and human resources, social and ethnic structures, demographic changes, regional influences, long lasting pandemics

- Globalisation, geopolitics, global trade and investment regimes, migration, urbanisation

A state with weak legitimacy cannot expect citizen to believe in promises that e.g. tax paying will lead to good services. Delivering quality universal primary education in a geographically large country with a dispersed and small population may demand infrastructure, incentives to teachers etc. which will be so costly that considerable foreign aid may be necessary for 50 years or more, even under optimistic growth scenarios. And migration and pandemics as HIV/Aids may imply that medical doctors or engineers in average only work few years before disappearing from the local labour market. Improving the quality of tertiary education may increase migration opportunities, and actually diminish the labour supply in a country if wage and work conditions continue to be uncompetitive.

Institutions are often used synonymously with organisations, but in this context 'institutions' denotes resilient social structures formed by norms and regulations which provide solidity and meaning to social life. Institutions can be formal or informal, and are by definition slow to change. Institutional factors considered important include:

- Norms for exertion of power and authority, from the family level to the state level, including gender aspects of the power distribution.

- Socially embedded norms for what government authorities should and should not do, and of how public management should be performed ("how we do things here")

- The status and rank accorded to "carriers of public authority", be it elders, teachers, doctors, clerics, ministers or presidents.

- Norms governing reciprocity in exchanges of e.g. favours and gifts

- The norms governing how formalised, official laws ands rules are considered and used compared to informal sets of rules

Institutional norms and regulations vary significantly between countries and regions, and there is no evidence demonstrating that one set of institutional factors is superior to other. Flat, lean organisations may be the right answer in one place and one time, and the wrong answer at other places and times. Not taking institutional factors into account is likely to either make CD fail, or to generate unnecessary levels of resistance – or, most likely, both!

Both structural and institutional factors may seem to be abstract, and since they by definition are beyond short-term influence, it may sometimes appear as an intellectual exercise of little practical value to analyse these factors. But failing to do so may be the first reason for CD and CD support to fail, and most evaluations identify the poor attention to the context as the key explanation for CD support to be ineffective.

Finally, *individuals and organisations* pursue particular interests, including the political elite, civil servants, civil society organisations, the military, the judiciary etc. Donors are also agents pursuing an agenda.

Characteristically, there are always multiple agents or actors which adopt their individual or collective decision making to that of others, in complex and dynamic patterns. This may seem a trivial observation, but it has very significant implications for approaches to CD and CD support: In stable, predictable environments, it is possible to plan as engineers do: constructing a bridge, engineers will test the contextual factors, design the bridge taking that into account, and build it in a step wise fashion.

Imagine trying to win any competitive sport – e.g. like soccer – with this approach: having a plan for the entire game, without the ability to change the plan as the other team follows their strategy would be a recipe for defeat. Coaches, like generals, constantly reconsider options, strategies and tactics. And eventually even objectives – initially,

they may aim to win, eventually, a draw or even a decent defeat may be acceptable. CD and CD support takes place in dynamic contexts of multiple actors where metaphors from games are at least as relevant as metaphors from engineering.

These sets of factors – structures, institutions, organisations and individuals – all interact dynamically and interdependently. The context of structural and institutional factors *shape present capacity* and provides *drivers of change* as well as *constraints to change*, which organisations and individuals – each in their manner – will respond to, in addition to respond to each other. Individuals and organisations, and their capacity, are *embedded* in a context of institutional and structural factors. This also captures that individuals, including donor staff, are not able to articulate all the deeper-rooted factors influencing their choices and actions.

All stakeholders in development assistance can, however, do more to reflect on and analyse the drivers of and constraints to change, and the factors shaping present capacity. Most aid agencies have by mandate and inclination tended to focus mostly on the opportunities of individuals or specific organisations to promote capacity change, giving less weight to the structural and institutional constraints on both individuals and organisations. Increasingly, however, it is recognised that such "voluntaristic" approaches do not work as intended. This may lead to another, pessimistic extreme, assuming that structure and institutions determine nearly everything, leaving agents, including donors, virtually without

Tips& tricks:
Best fit is best practice!

Overlooking how the context influences capacity and capacity development, many have in vain sought to identify the "magic bullet" in the form of a best – or at least good – practice which could prescribe what donors should and could do to support capacity development.

The consequence of taking the context into account is to abandon looking for a best practice, and rather look for the best fit between CD support and the context. This approach has again and again been recommended in studies and evaluations over the last decade: Looking for best fit is simply good practice!

There is a more fruitful *middle position*. It recognises on the one hand that structure and institutions set the stage and shape the opportunities and constraints of individuals. And, because donors have been fairly poor in taking structural and institutional factors into account, the framework in this note emphasises their importance, and also warns against overestimating the difference that donors can make.

But even if structural and institutional factors are an important and somewhat overlooked part of the story, it is the actions of the individual persons and organisations which influence how the stage will change – and their choices are, by definition, what can be influenced in the short term anyway. The better the choices of donors and domestic stakeholders take the drivers and constraints to change into account, the more likely will their actions be effective. When working with capacity and capacity development issues, it is therefore essential to analyse and understand the interplay of all four sets of factors: structures, institutions, organisations and individual actors.

4.5 Step 4: Inputs or resources

The inputs consist of funds, staff, technology, materials, services and knowledge from all sources, including from development agencies. Obviously, their supply influences capacity and capacity change options – if medical doctors migrate to rich countries or urban centres, then a poor country faces severe difficulties in building capacity to deliver health services in remote rural areas. Inputs are acquired outside the organisation (and can therefore be seen as part of the context), but they are of course only useful when brought inside, and they are the tangible elements of an organisation's capacity.

Analyses of capacity constraints often point overwhelmingly to "lack of funds", "lack of transportation," "lack of skilled staff" etc. – in short, to lack of the right inputs.

Tips& tricks:
Be aware of "lack of"-type of description

Lack of funds, of skills, of planning systems, of computers – such statements are most often identifying "the absence of a solution". They focus on describing what is not there or what is wrong – rather than analysing why a situation is "right" in the sense of being the logical consequence of those factors around. They are thus often indirectly normative – "lack of comprehensive planning" leads to propose: yes, comprehensive planning!

Limited access to resources does, of course, impose objective limits on what can be done. But an analysis ending here has several potential weaknesses: It conveniently places the blame on some forces outside the organisation, and it is a very uncontroversial and sometimes highly visible apparent cause of malfunctioning: The photocopier is old and out of order, there is no transportation,

no cabinets for files, no computers, to few staff – etc. Which all is very true – with the added problem that it invites the conclusion that the solution to CD support is to provide what is lacking, namely more funds. Which is precisely what donors have, and they also have a license to spend these funds.

Limited resources do impose limitations to what can be done. If ambitions are higher than what resources allow, then either ambitions must be reduced or funding increased. But matching ambitions and resources is rarely the only problem, and providing the funds is rarely the solution that will increase capacity on a sustainable basis. Several additional issues should be explored before any "lack of inputs"-type argument is accepted:

- A comprehensive overview of all funds (recurrent and capital) available to the organisation with indication of the revenue sources is critical to get before any conclusions can be drawn.

- A mismatch between goals and resources often goes hand in hand with poor use of the few resources available. More resources will by itself not address such poor use.

- Low funding is often made worse by inflexibility in the formal budget, which typically allocates too much for salaries compared to other operational expenses.

- Formal salaries may be low, but some staff may get considerable allowances and perks which offsets the poor basic salary.

- High levels of uncertainty about if and when inputs become available may reduce work planning and task assignments to largely symbolic exercises – no matter what the level of funding is.

4.6 Step 5: Looking inside organisations and networks

After circling around the "black box", looking at the outputs, the context and the inputs, it is of course important to go inside. Organisational capacity is shaped and conditioned by factors inside and outside organisational boundaries, but it resides in the organisation or organizational network, and it needs to be broken down into elements. Organisational theory provides several useful ways of doing this for individual organisations (networks will be discussed below), one of which is presented in figure 2 below. All boxes are important, but in this context two boxes in the model deserve special comments:

The *leadership box* is a hub connecting the other five boxes. Some may question the central role and influence of top management in the model, but it is their responsibility to deal with factors that constrain capacity and to realign relationships between the boxes. There is also ample evidence of the great importance of leadership in poorly institutionalised public-sector systems. Moreover leadership is important if major CD initiatives and other organisational change measures are to succeed.

The *rewards box* deserves special mention because organisational capacity and performance depend significantly on staff motivation. The formal system of salaries, wages, bonuses and the like form part of the organisation's rewards or incentives system An organisation's informal reward system is, however, also important because a formal reward system does not guarantee that people will feel and act as if they are rewarded. This brings issues such as personal growth and satisfaction in social relationships, the prestige and recognition associated with working for an organisation, professional pride and service to one's community or country to the fore. Such informal aspects of reward systems in government organisations are often of prime importance.

In each of the six boxes, a formal system (what exists on paper) and an informal system (what people actually do) operate side by side. Neither system is any better than the other. Diagnosing the formal system is partly based on the organisation's statements, charts and reports, and partly on the extent to which this fits in with the context that the organisation is operating in. Diagnosing the informal system is obviously more complex, and seeks to validate if there is an appropriate fit between the formal and the informal systems. This aspect will be further discussed in the next section.
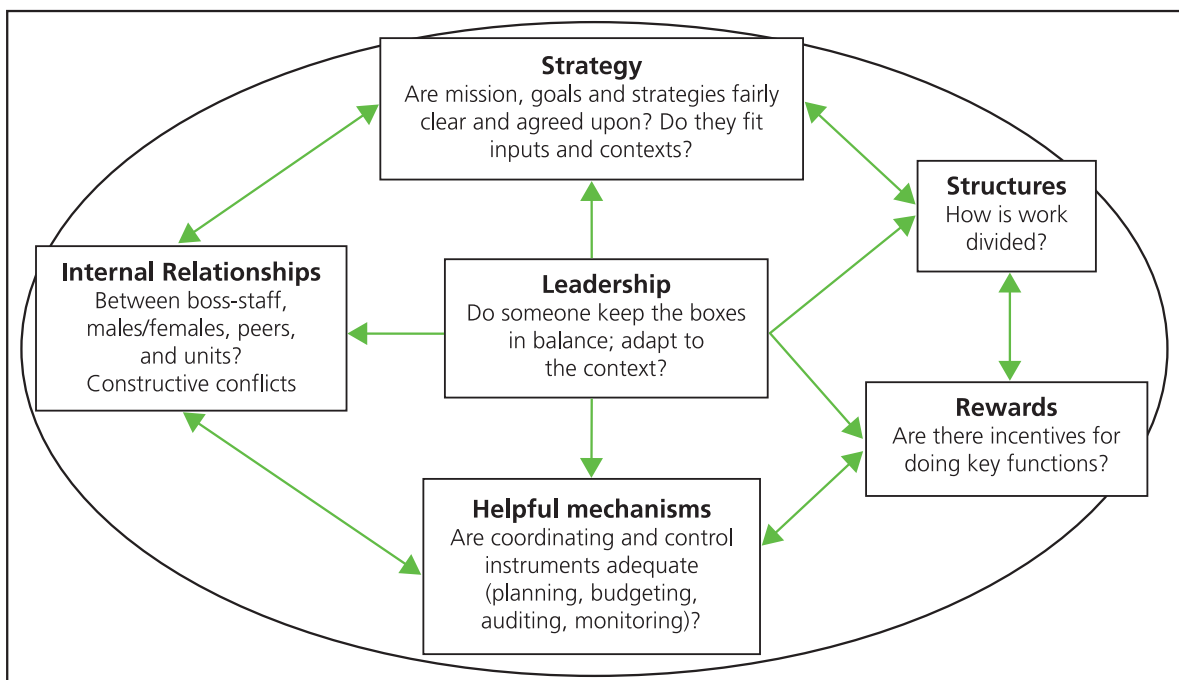
Looking at the elements inside an organisation, it is important to remember that *identifying problems inside an organisation does not automatically imply that these problems should be mostly or exclusively addressed directly* or through an "internal" approach. The internal capacity problems may often be addressed more satisfactorily by approaches that aim to modify those contextual factors which shape the internal capacity.

Tips& tricks:
Incentives to performance

Even in rather constraining environments, some organisations do better than others. Leadership is not the only factor explaining the difference in performance, but it is a central one – good leaders can find ways to enhance the combined set of incentives to staff. Uniformly, such leaders are driven by a quest for performance and results, rather than by thirst for power or personal status.

As important as good leadership and adequate incentives are, it is on the other hand not a solution for all seasons: In power systems building strongly on hierarchy and loyalty, too many and too smart leaders can quickly be perceived as an unwelcome challenge for those at the top. The smartest know this very well, and may start to act accordingly…

Figure 2: The Six-Box Model

Strategy
Are mission, goals and strategies fairly clear and agreed upon? Do they fit inputs and contexts?

Structures
How is work divided?

Internal Relationships
Between boss-staff, males/females, peers, and units? Constructive conflicts

Leadership
Do someone keep the boxes in balance; adapt to the context?

Rewards
Are there incentives for doing key functions?

Helpful mechanisms
Are coordinating and control instruments adequate (planning, budgeting, auditing, monitoring)?

The organisational network

In programmatic approaches like the sector-wide approach, the vantage point defined by outputs will often include a network of organisations, which may span from central ministries to local governments, and to civil society and private sector organisations, all of which may be significant contributors to specific products and services. The open systems approach is also applicable to analyse networks – the network produces outputs (which none of the organisations can produce alone), there is a context outside the networks, and inputs. Capacity development issues thus often have to be dealt with from a network point of view.

Organisational networks have three important characteristics in common:
- interdependence,
- goal variety, and
- (fairly) stable patterns of bargaining interactions.

Networks exist because organisations need other organisations' resources (such as funds, staff, technology, products, information, support, services, decisions, etc.) to produce outputs. Interdependence varies, of course, since some organisations are more important than others in the production of a specific output, or has more power. Evidently, individual organisations also have interdependence between units, so this feature is in itself not distinguishing networks from "unitary" organisations.

Goal variety is larger in networks than in organisations. In the latter, different units may cater for different aspects of the organisation's overall goal – in a network, there is no such overall goal. Though involved in environmental regulation, this is not the key objective of a Ministry of Industry. But the difference regarding goal variety is more of degree than of nature: many public organisations have multiple, inconsistent goals, as they try to balance different values and interests.

Tips& tricks:
Networking pitfalls

In an ever more specialised world beyond central control, networking has become a plus-word with nearly only positive connotations.

When it comes to get actors together across organisational boundaries, from the public and private sector, networking turns out to be less fancy. Two less functional outturns are common: the old boys' network where personal connections become both the strength and the weakness of the network – old boys may leave or they may turn out to have their own, particular agenda. Or the "coordination committee" where everybody is present and nothing really moves because the committee is linked to donor funding, tries to replace ordinary, but non-functioning mechanisms, and has no support from higher level authorities.

Contrary to individual organisations, networks usually have no shared central apex of formal authority, or only a very remote one (e.g. the president). Nobody can give orders to a network – participants bargain about positions, contributions – and everything else. Intents to formalize networks – code of conducts, memorandum of understanding – normally work only as long as staying in the network serves individual interests better than leaving it. A prime example of the huge challenges of networking is of course the attempts to harmonize and align multiple sovereign donors in aid dependent countries.

In the context of the capacity of networks in partner countries, CD and CD support may focus on strengthening individual units in the network. But CD may also be required to improve the network relations: adding more stability to interactions, modifying bargaining processes, share information, improve coordination, and create collective incentives for all to contribute.

5. Getting beneath the Surface of Organisations

5.1 Two dimensions of capacity: "functional-rational" and "political"

One thing is to collect the immediately available data – though it is not necessarily straightforward, it is neither rocket science nor neurology. Concluding, on the basis of the data, that an organisation or a network need to enhance its capacity to meet quantitatively and qualitatively increased output levels which will contribute to desired goals, is what everyone can see.

The real difficulties begin when seeking the causes for present levels of performance, and the constraints to and drivers of CD. Using the metaphor of a fainted person, it is easy to see that the person has to get better – but much harder to know if the fainting is caused by lack of oxygen, carbon monoxide, lack of food, bacteria, a punch, a stroke, or something totally different. Prescribing what will make the person stronger and robust against future fainting can also be complex.

Getting beneath the surface of organisations is at least as complex as it is with persons. Firstly, organisations, as persons, have a visible and formal appearance – but they also have informal and hidden aspects which are crucial for performance. Not everything is written down or can be read out of reports, accounts and plans, and not everything is shown to "outsiders" – not necessarily because it would damage the organisation, but because it would be considered inappropriate or simply irrelevant. The fact that the executive director's sister-in-law is married to the chief accountant can be known by everybody in the organisation, and in practice be totally irrelevant as well as considered irrelevant. But it might also be important – as might the fact that in most organisations it is accepted and even expected that some formal rules are disobeyed, while some informal rules which nobody would dream of formalising are strictly obeyed.

Therefore, the open-systems approach must not be interpreted as if organisations only seek to meet officially stated goals, and that these are fairly specific; that staff and external stakeholders agree on these goals and wish to pursue them; and that formal rules, structures and processes *inside* the organisation determine performance. From this viewpoint, poor performance is, as already indicated, often interpreted as "a lack of functional rationality". This is often translated into a lack of proper planning, of detailed job-descriptions, of an appropriate structure, of proper workflows, of well-structured management meetings or of specific skills – in short, a lack of everything that can be considered the hallmark of a healthy, efficient organisation.

> **Tips& tricks:**
> **Beyond a functional-rational diagnosis: politics and power matter**
>
> Understanding the logic of what is there is often much more difficult than to observe the deficiencies measured against a "healthy" ideal, all to often uncritically transferred from ideals of the modern state as known in industrialised countries.
> The functional-rational approach often ends up identifying goals for performance which are unrelated to present capacity. To be realistic, the analysis has to include the "political" dimensions shaping capacity and CD

But, as experience has shown, such a limited approach is normally ineffective on its own in the context in which CD takes place in developing countries. It overlooks several thorny, and often informal or hidden issues, such as the power-relations in and around organisations, the pursuit of other interests than those related to the particular task, and the conflicts over mandates, influence and resources. Informal processes and structures, and informal relationships among key stakeholders, go unnoticed. The influence of external factors and agents is underplayed. Finally, the focus on perceived

deficiencies overlooks what actually works in the organisation and why this may have its own, albeit often shrewd rationality.

This "functional-rational" dimension of organisational analysis must therefore be supplemented by what can be labelled the "political" dimension of organisations, as shown in Box 1 below.

It is important to stress that *both* analytical dimensions are needed. Organisations cannot function without power being exerted, nor without a dose of instrumental order and organisational rationality. Likewise, organisations cannot function without informal norms and rules interacting with formal ones. Assuming that staff coming to work will only care for the official goals of their organisation without concern for their own interests is naïve anywhere in the world; assuming the opposite – that their choices are only determined by their rational and narrow pursuit of own interests (career, power, money, status, liberty…) is cynical and mistakenly overlooking that human beings are also, to varying degrees, altruistic, and seeking self-realisation putting their professional skills to good use.

The "politics of organisations" has come to stay, both in public-sector and private-sector organisations – but often more pronounced in the public sector. Public sector organisations more often have to balance several values and objectives, and to accommodate diverging interest. And private sector organisations vanish if internal politics make them ineffective (but the fact that this happens does illustrate that politics also flourish in private organisations). If the focus is on a sector or at the entire public sector, the politics ([3]) in and around sector organisations includes wider issues of overall state authority, social control and governance mechanisms, all linked to the characteristics of the socio-political system, which again is shaped by structural and institutional factors, and agents.

Box 1. The "functional-rational" and "political" dimensions of organisations in the open-systems approach

	"Functional- rational" dimension	"Political" dimension
Main unit of analysis	The organisation as an entity with certain functional requirements; focus on task-and-work system	Subgroups with self-interests, in shifting coalitions; focus on power-and-loyalty systems
What driving forces are emphasised?	A sense of norms and coherence, intrinsic motivation	Sanctions and rewards, extrinsic incentives
Which image of man is assumed?	Employees concerned with the organisation's interests	Individuals concerned with self-interests
How does change happen?	Through participative reasoning and joint learning, finding the best technical solution	Through internal conflict and external pressure, coalition-building with powerful agents who can force change
What will change efforts focus on?	Internal systems, structures, skills, technology, communication	Change incentives, fire foes and hire friends, build client and performance pressure.
"Emotional tone" of the analysis	Naïve	Cynical

([3]) Instead of "politics", some agencies prefer the term "political economy".

5.2 What to focus on in the assessment process?

Going through the steps of the capacity assessment process outlined in the preceding section, it is thus important to look at both the functional-rational and the political dimension in each step. But it is also important to be pragmatic and selective.

Different circumstances may require attention to different factors and dimensions: if an organisation is clearly unable to produce the mandated outputs, and if salary levels and other incentives are clearly insufficient to motivate staff to perform, then there may be little reason to dwell on detailed aspects of the "transactional" work systems and procedures, and more reason to assess whether the mandated outputs are really a priority, or whether the poor incentives are part of a public sector wide phenomena – and if so, if there are ways of improving incentives in the particular organisation without distorting longer term effects.

> **Tips& tricks:**
> **Be pragmatic – in an informed manner**
>
> There is no blueprint for how detailed a capacity assessment should be. It depends on the purpose – which decisions will it lead to? – and the specific circumstances. An assessment can easily drown in insignificant details – and it can as easily overlook critical, sensitive factors. Experience and requisite expertise are the best means to avoid both pitfalls.

Except for the initial steps, there is thus no blueprint for where to start or stop a capacity assessment. The *significant* internal and external factors have to be considered. A key challenge may well be to avoid *overlooking* critical important factors – for example those which are most difficult, sensitive, informal, and contested and therefore tempting to put aside.

They include the assessment of institutional and structural factors in the context, of power and interests, and of the factors shaping if CD is likely to take place.

5.3 Institutional and structural factors, power and interests

Distinguishing *relevant* institutional and structural factors from irrelevant, and drawing the implications for the scope and size of overall support, as well as for possible CD support, is notoriously difficult. It may also be sensitive and involve dealing with highly contested viewpoints. This can be briefly exemplified by the issue of the strengths of the state in a particular developing country vis-à-vis the strength of society.

Some would argue that many developmental states do not have the features normally associated with the modern state: they do not command the huge financial, human and authoritative resources necessary to exercise effective coercive and adminis-trative authority over the entire territory, and to deliver quality services to the population. Their rulers are not supported by strongly organised, broad social groups fighting for their own economic interests in a rule- and contract-based economy. Rather, in relation-based economies kinship and client-patron relationships are effective and enforceable, but not necessarily conducive to change. In this analysis, many development states appear as weak states embedded in strong societies. The rulers therefore have to accommodate, and as appropriate reward, local strongmen and loyalists in the centre, and to preserve their relative power they may also have to fragment the opposition and weaken potential contenders of their own position.

Change and reform under such conditions is still possible. Progressive policy elites may succeed to

promote pro-poor reform, better institutions, transparency and accountable governance mechanisms. But policy reversals should often be expected – if, for example, a Ministry of Finance under enlightened leadership strengthen its capacity and begins to impose e.g. budget and expenditure discipline on others, then it is highly likely that those whose loyalty has been awarded with a sector ministry will fight back, or that the chief executive of the government may perceive a too strong Ministry of Finance as a potential threat to his own position, and therefore remove the minister and transfer key staff.

Thus, donors working to "bring the budget back in the centre of policy making" may face an uphill battle unless they recognise the constraints for such an endeavour and dampen their enthusiasm to what can realistically be achieved. Others, hoping that decentralisation is the key to "responsive service delivery" may overlook that decentralisation might cut essential "power transmission lines" between regional strongmen and the centre, change regional and/or ethnical balances and thus threaten to change the very fundamentals sustaining the power of the ruling elite. This may be positive, but it could also make a weak state collapse with no alternative power structure readily available to take over.

Discussing power issues and possible vested interests is sensitive in any context and in any organisation. But it should also be evident that supporting a sector, or the national budget, without seeking to analyse such structural and institutional factors, may lead to false expectations, misdirected support, and failure to enhance capacity. E.g. insisting on recruitment or promotion by professional merit rather than loyalty merit, and supporting outsourcing of recruitment to a multi-national auditing company, or introducing transparency in promotion procedures, may seem evident sensible moves to curb nepotism. But it may also be politically impossible for a minister to accept such measures, and there are numerous examples of how such "reforms", if accepted, are circumvented and undermined. Rather than moving to professional merit, a first feasible move might be to accept loyalty merit, but seek to complement it so that the most competent of the loyal are recruited or promoted.

6. From Assessment to Action: Change and Capacity Development Processes

Efforts to enhance organisational capacity may often be best served by addressing both internal and external factors, as well as both functional-rational and political dimensions of capacity. A one-dimensional approach will be unlikely to succeed. At the same time, CD efforts must for several reasons be addressed strategically and in a less ad hoc and short-term manner for them to succeed.

6.1 Four areas of change

Box 2 below shows the four focus areas for capacity assessment which come out of the previous sections – and it also indicates four different potential action fields for influencing CD.

Changes in the external factors may be the most powerful driver of organisational change, leading to a change in what has been called the "transformational" internal factors – for example in commitment to and leadership of change. Changes in these transformational factors are necessary to ensure that "transactional" change – the more nitty-gritty improvements of business processes, structures etc. – has a wider impact on performance. The model warns against focusing only on the functional-rational internal aspects of organisations, and against assuming that CD support to "transactional changes" in the task-and-work system will have a wider impact unless the environment and the "organisational politics" are conducive to change.

Box 2: Four action fields for promoting change

	Focus on the "functional-rational" dimension	Focus on the "political" dimension
Focus on factors within the organisation(s)	1. Getting the job done	2. Getting power right and accommodating interests
Focus on factors in the external environment	3. Creating an "enabling environment" for doing the job	4. Forcing change in the internal power relations

Below, some details of the four fields are given, including some of the possible CD options that could be considered:

1. Getting the job done

• *Assessment focus*: The internal task-and-work system – technology, procedures, task flows, information and feedback processes, structures, skill composition and human resource management, and the "transactional" changes in these factors are in focus here, and the six-box-model (or other similar models and checklists) are typically used for such assessments.

• *Possible CD activities*: Change of systems, new organisational structures, codification of new procedures in manuals, technology; skills training; general management training and human resource development activities are the typical interventions in this category. Most donor support to CD is here. Popular consultancy concepts like "Business Process Reengineering" and "Total Quality Management" etc. also fall in this category. The "softer" side of organisational life can also be addressed under this heading – improving communication skills and styles, human relations, leadership style.

2. Getting power right and accommodating interests

• *Assessment focus*: The distribution and exercise of power and authority, on internal conflicts, and the pursuit of different interests, and on "transformational" changes in these factors. It should be underlined that interests not fully aligned to the formal organisational goals may be fully legitimate: staff may have an interest in job security or maternity leave which is not contributing to organisational performance.

• *Possible CD activities*: Promotions, firing, targeted support to "groups of reformers", support to sanctions against rent seeking, performance-based benefits to key staff, negotiations of labour conditions, change of executives.

3. Creating an "enabling environment" for doing the job

• *Assessment focus*: External factors and incentives that shape and affect the task-and-work-system dimensions of organisational capacity. E.g. an environmental regulation introducing limitations on the use of pesticides will affect individual production units. A decentralisation law giving districts the mandate to build and maintain schools will alter the agenda of the district administrations.

• *Possible CD activities*: Copying the trend in particularly Anglo-Saxon countries, it has become popular to ring-fence or protect certain functions (central banks, customs, revenue collection, road administration) by establishing autonomous agencies, protected from political influence and exempted from the average poor salary conditions of the public sector. In addition to such "agencizing", output-based budgeting, change of resource envelope, change in formal/legal mandate or wider technical norms, introduction of supervisory agencies, external audits would primarily fall under this category. Focusing on and monitoring quality and quantity of outputs as advocated in this note would also fall in this category.

4. Forcing change in the internal power relations

• *Assessment focus*: External factors and incentives which shape the distribution of power and authority, the conflicts, and the pursuit of different interests in the organisation. The existence of a powerful old boys network, or recruitment from only one region, ethnic group or political party for top positions, may impede wider change, and organisations captured by vested interest and extraction of illegal rents may be extremely well locked into this capture. Dominance by a professional group with strong professional ethos – teachers, doctors, police officers - may ensure basic performance levels, but also create pervasive barriers against change.

• *Possible CD activities*: Building coalitions of external stakeholders strong enough to impose change. Building bottom-up user pressure for accountability and performance, support to advocacy and lobby groups, training of politicians and journalists. Scandals and singular events often have a strong and unpredictable effect in this area, creating momentum that can lead to change in the "transformational" factors inside organisations.

The point is not to prescribe any particular blend of possible interventions in each of the four dimensions, but to insist that a one-dimensional approach would most often be unlikely to succeed. All four fields must be included in the assessment, as well as well designing change processes and support to change. The specific best fit of interventions depends on the configuration of factors – and they cannot be generalised.

6.2 Addressing change strategically

Organisational change typically involves conflicts about authority and power. A feasible change strategy must be based on an intimate knowledge of the arenas in which such conflicts play out, as well as of allies and opponents. Change management includes managing opposition, creating and heralding quick wins, taking advantage of opportune moments, and putting together and maintaining a supportive coalition.

Of course, not all CD efforts need to be contested, but surprisingly many are. Blueprint approaches that specify the results, activities and inputs before the CD process begins, are particularly poorly suited to the dynamics of successful change and to the unpredictability of the needs for inputs, for the modification of activities and results, and even for temporary or permanent modifications of objectives.

Because change typically involves conflicts, *clear commitment to and leadership of change* from those in charge is, perhaps, the single most important factor for capacity development efforts to succeed. Commitment should be visible, rather than something that has to be looked for. Some centrally placed individuals or groups should, at the minimum, publicly demonstrate their intellectual conviction and commitment to change.

Moreover, leaders should be seen to make an investment in change (of formal position, of reputation, of political capital, even of self-respect), which may risk being lost if the change does not succeed. Being seen to mobilise others to support changes is an important aspect of making such an investment. It indicates that commitment will also be based on a calculus of the potential gains and losses associated with the process, a calculus that few will or should take lightly.

Third, *the scope and time horizon of change* matter – not only for the types of conflicts that are likely to occur, but also for the domestic commitment and organisational capacity needed to implement changes on the ground. More radical and innovative changes may be feasible if the stability of power structures, political systems or individual positions is threatened, and reform is perceived to be a response to such a threat. Then it is likely that bold, highly attractive visions at the start of the process may serve change better – by helping to mobilise political support - than realistic, dull, meticulously calculated targets. Without such a crisis, in situations of relative stability a more incremental approach to change efforts is likely to be more politically feasible, with a long time horizon (10 to 25 years).

Tips& tricks:
Be pragmatic – in an informed manner

Commitment and leadership combined with sufficient power is often seen as the key conditions for change to succeed. But this is not enough: a "good fit" technical design of CD elements is also essential, building on domestic and international lessons learnt.

Commitment to and power behind change is not constant over time, and a technical design may not fit all the way through.

Grand designs of CD are thus rarely successful, but neither are ad hoc approaches. Goals have to be fairly clear, but the path will not be linear or in great leaps. This approach has been labelled "strategic incrementalism"[4].

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[4] The term was used by Brian Levy, co-editor of "Building State Capacity in Africa", (World Bank, 2005), in a conference about CD in programme based approaches held in Washington, April 2005.

Fourth, *sequencing* is needed because resources are limited and because it is practically impossible to do everything at once. There is no right way to do this, but several options. In some contexts, capacity development efforts should focus on the functions required for countries to manage their own reforms (units/departments/ministries responsible for public sector reforms). In other situations, capacity enhancement efforts should focus on agencies considered important for the public sector as a whole (such as revenue authorities, the judiciary, the audit agencies, etc). A third sequencing strategy is to focus on improving core routine processes; once these are successfully addressed, it may be possible to move to more sensitive and 'political' issues.

However, sequencing is not without its risks. It may focus only on the initial steps, and become an "island approach" rather than a sequenced approach based on careful strategic analysis and decision-making with a longer-term perspective. Another risk is that individual steps early in the sequence may be unsuccessful because they depend on other steps not yet taken. Sequencing is not synonymous with doing one thing at a time. On the contrary, sequencing may require simultaneous activities by various actors, some of whom are not under the same overall authority.

The challenge for any change strategy is to arrive at an appropriate (context-specific) balance of incentives and power in favors of change, outside and inside the organizations developing capacity. Broader change is most likely to happen when strong demand-side pressures for improvements are exerted from outside the organisation (from clients/ customers, political owners, supervisory bodies, competitors or quasi-competitors etc.).

The fundamental characteristics of change processes explain why capacity development and change are overwhelmingly a domestic matter.

The conceptual framework outlined above provides no standard recipes for how to make sustainable capacity change happen. Instead, it provides a systematic framework for analysing the processes and factors that influence such changes positively or negatively.

It may be felt disappointing that advice on CD is not more specific, conclusive and, like a good recipe, easy to follow and implement. A moment looking at how the top performing organisations in the private sector have reached their excellence may be sobering in this regard: they followed certain principles (but principles change over time), they pursued options which proved available (but some failed in the process), and they had not least inspired leaders which formed capable teams around themselves (we know afterwards which organisations and teams succeeded – but not before!). The recipe was never there – just a myriad of elements which had to be intelligently and diligently combined to fit the needs of the situation. The same goes for CD in the public sector: good analysis, excellent strategic skills and leadership, ability to see and luck in catching windows of opportunities are fundamental. The skills, the leadership and the luck cannot be replaced by recipes.

7. Donor Support to Capacity Development: Roles and Instruments

So far, this note has dealt with capacity and CD with only very limited reference to donors. The focus has been on capacity per se and on the generic aspects of CD processes. In this section the challenges for donors will be dealt with. Some of these challenges are shared with other external change agents trying to foster change in organisations – others are particular for donors.

Evidence over the last decades points strongly to the limited overall effectiveness of donor support to capacity development. Much is known about what donors have done wrong in their support. Technical assistance (TA) and training has too often been supply driven, local ownership has been undermined, commitment overestimated, and donors' focus on disbursement and quick results have eroded domestic capacity as quickly as it has been developed.

A new emerging consensus, articulated strongly in the Paris Declaration on Aid Effectiveness, 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. On the other hand, country policy ownership is not a simple yes/no issue, 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 and the overarching institutional framework are unhelpful.

While acknowledgment of the importance of the political and institutional context is now commonplace, the assessment of these enabling and constraining factors for CD is an area where experiences are only gradually accumulating. Clear cut answers about the roles that donors can play, and how proactive they can be without undermining local ownership, are not available either. With these cautionary remarks, the role of donors in relation to capacity assessments and CD support is discussed below, followed by some more specific considerations in relation to CD in the context of the Sector Programme approach and General Budget Support.

7.1 Should donors conduct capacity assessments?

Capacity assessments are sensitive processes, often accepted with considerable scepticism and even resistance by those subjected to assessment. Most employees will from their own career have felt this scepticism if they have had the typical experience of being assessed without having been involved in defining why this is happening, and what the consequences may be.

The way a capacity assessment is handled will therefore affect subsequent CD prospects positively or negatively, depending on how it is organised, scoped, timed and managed. Sending in a donor-recruited team of international consultants who produce a report and a CD plan after two weeks of interviews will have different effects than a six month process where an internal task force headed by a senior executive ends up with a 3 page work program for CD over the next two years. The latter is not *per se* better than the first – but the pros and cons of different options have to be carefully considered. These depend on the specific objectives of the capacity assessment – is it to assess feasibility of support in the first place, or to assess which modality of support to apply, or to initiate a CD process?

Tips& tricks:
A capacity assessment is in itself an intervention

Donors have a legitimate need for assessing the capacity of partners, to ensure that the support provided – whether for CD or for other purposes – is aligned to the implementation capacity.

Even so, it should be realised that a capacity assessment which goes "inside" is also an intrusion in a space considered partially private by staff. When, how and why it is done is therefore crucial – external actors are guests, and should respect that they are not always welcome, and not in all places.

Whether or not donors organise capacity assessment for their own decision making processes, some general principles apply:

- Assessment of broader structural and institutional factors, and socio-political analysis, can inform more organisation-specific analysis, but can be conducted as a separate process. It should draw on local academia but also consider how to connect to the "political circles" and government. It should preferably be sponsored by multiple donors.

- The closer the assessment is focusing on the internal affairs of a specific organisation or a network of organisations, the more important it is that the organisation(s) themselves are in charge of and committed to the assessment process, and that possible consultants are accountable to the organisation(s). If there is little commitment to conduct an assessment, sending in donor-recruited consultants should be considered a last option. Rather, such a situation may indicate that the partnership is built on misperceptions or divergent objectives, and that renewed policy dialogue, rather than institutional assessment, would be the appropriate next step.

- The previous bullet notwithstanding, broad participation is not universally a good feature of capacity assessment processes. It may raise expectations, stir up conflicts at the wrong time and in the wrong manner – or, alternatively, lead to avoidance of dealing with sensitive issues. It may make the process costly, lengthy and difficult to organise. On the other hand, it may also greatly enhance transparency of processes and results, and create commitment to subsequent change. Only a specific analysis can help to decide how participatory an assessment shall be.

- Except for very small operations exclusively funded by one donor, donors should only as a last resort conduct their "own" process. Harmonisation and alignment to joint processes under government leadership should be sought for the aspects of capacity assessment related to public sector organisations or public sector wide issues.

7.2 Donor support to capacity development

The conceptual framework outlined in this guidance note offers a framework for dialogue and joint analyses of capacity issues between donor and government representatives. This dialogue and analysis should start by recognising *that capacity development must mainly be a domestic affair in order for it to succeed*. It can be supported from outside; it may even be initiated from outside. But until and when sufficiently powerful domestic actors commit themselves to a process of capacity development, efforts to change will not succeed beyond small "transactional" changes, and they will not be sustainable. However, the practical implications for donors of this insight are not clear-cut.

One view is that domestic ownership can be constructed and broadened over time, and that donors can design and organise change processes. Donors can e.g. support groups of reformers who do not

have sufficient initial power to define agendas and lead change. Donor funding of initial "no-harm" activities can also prove that the advantages of capacity development offset the costs of bringing them about, and donors can finance activities that reduces the losses incurred by change (e.g. paying grants for voluntary retirements from overstaffed agencies).

A different view is that the role for donors should be reduced. They should not take the lead in CD processes. They should stick to the analysis needed for their own decisions about whether or not to support what must essentially be domestically lead processes. Donors may support such processes with technical and process expertise, but the support should be acquired and managed by the domestic partners, not by the donors themselves.

Whatever the merits of the two views, experiences with donor involvement in capacity development seem to indicate a need to move towards a more hands-off approach and to lower ambitions to fit conditions in specific countries.

There are, however, many other useful things that donors could do contribute to capacity development.

First, *capacity development targets must be defined in terms of changes in organisational outputs.* Keeping the focus on output changes help avoiding a focus on TA, training of other CD support inputs or activities. Making explicit the changes at this level – e.g. the specific service delivery targets - that should occur as a result of donor support to CD helps avoiding the fielding of TA with objectives which are really just vague activities: "..assist developing capacity..", "..conduct job-relevant training of staff.." – recent evaluations have demonstrated that such empty phrases are very frequently used to describe what TA is supposed to do.

Second, *capacity development targets must be feasible.* Aid agencies that wish to support CD processes must not demand an unrealistic or counterproductive up-front design and planning phase based on what is ideally desirable. It is important that donors and recipient base the CD activities on a common understanding and acceptance of what constitutes feasible short- and medium term goals and progress in terms of output changes. Moreover, it must be possible to modify inputs fairly rapidly so that contractual or bureaucratic formalities do not impede informed flexibility, in close dialogue between the agency and the national partner. If agencies wish to be useful partners in such a dialogue, they need a detailed knowledge of the specific context, the organisations, the stakes and the stakeholders, as well as a detailed understanding of the dynamics of change.

Tips& tricks:
Keep controversial themes on the agenda

Issues related to gender, age or ethnic discriminating in organisations can easily be cut out of capacity assessments or reduced to lip-service. Donors' values and principles may differ significantly from the informal norms and values governing behaviour in organisations.

Donors cannot force partners to pay serious attention to issues of discriminations in CD *implementation processes* – that simply won't work. But donors should still request that explicit attention is given to e.g. gender differences and relations in *assessment and diagnostics* – simply to keep the issue on the agenda and thereby provide modest support to those national stakeholders who work against discriminatory practices, even if this is an uphill battle.

This is not an easy requirement. Donors, like recipient governments, politicians and citizens, want quick, concrete and tangible results from the public sector. Many such outcomes are now enshrined in international agreements (e.g. MDG) and form the basis of ambitious poverty-alleviation targets under the umbrella of a PRSP. The incentives to go for short-term results are therefore high for donor agencies.

Donors also hold principles and have values regarding e.g. governance and gender equality on which they may not wish to compromise, even if these values may not be shared with those whose CD is supported, and thereby create tensions in the partnerships.

Recipient governments also face strong pressures to produce results. Their support and legitimacy may grow by association with increases in the delivery of services, even where these are funded by donors. Conversely, a government may lose support by trying to address structural imbalances and disincentives to performance in the public sector as a preparation for more rapid service delivery later.

Third, an essential requirement for donors to support CD is the *development of a partner relationship* enabling negotiations to lead to "win-win" situations. This is only achieved by developing trust and a shared view of key constraints on and opportunities for capacity development, inside and outside the organisation(s).

This requires that partners and donors are committed to obtain better analytical basis for decisions about if and how capacity-development initiatives should be launched. This is no small commitment. It will bring both partner and donor policies, incentives and operational modalities into the limelight, and it has to move the boundaries of what it is acceptable to discuss and include in such joint analyses. The goal is to get to a joint agreement of longer term directions of change, and then assist the partner in fleshing out

the short term changes in outputs that the capacity development shall result in. Donors must learn to play a catalytic role, rather than being designers or implementers of CD support.

7.3 Opportunities for CD support in the context of sector wide approaches

With the increasing adoption of the sector wide approach and budget support, development partners are not only seeking a wider and more systemic impact, but also – simply by adopting these approaches and modalities – influencing endogenous conditions for CD. By avoiding a myriad of uncoordinated projects, parallel units and donor specific benefit schemes distorting overall public sector incentives, and by tasking national partner institutions to implement external support integrated in the national and sectoral budgets and though national administrative and technical processes, the demand for capacity is increased rather than by-passed, and practices which potentially erode capacity are avoided.

The sector wide approach and budget support modalities also offer wider opportunities for stimulating CD:

- Alignment to national systems is not limited to the budget system, but can also be pursued in the areas of programme design, monitoring and reporting. Focusing on performance relevant to national decision-making and accountability processes, monitor that this performance improves, and offer coordinated support to develop capacity would allows to worki simultaneously on the demand- and the supply-sides of CD.

- The assessment of readiness for budget support and the design of budget support programmes could become opportunities for capacity development – Ministers of Finance and/or concerned sector ministers are or should be closely involved in the assessments leading to

the preparation of financing proposals. Sharing these processes and their results with a wider range of relevant stakeholders is another opportunity to support the creation of an internal effective demand for capacity development.

• Sector wide approaches and budget support modalities require interaction not only between development partners and a small number of senior officials and minister, but also consultation mechanisms involving civil society (e.g. users of public services, labour unions etc.). These constituencies can generate domestic demand for capacity development through participation in e.g. public financial management reform committees, indicators improvement mechanisms, sector coordination forums. The interplay between domestic players (for example between central and local governments, finance and line ministries, regulators and implementers, control and executive bodies, producers and users of data…) can be conducive to the emergence of mutual demand for performance and capacity development. Donors can seek to catalyze these processes as a natural part of the sector wide approach.

7.4 Donor responses to demand for CD support

In a "best case" scenario, the partner organisation(s) has realistic objectives for capacity development, strong commitment to CD, and visible leadership of the CD process. The partner has the necessary capacity to manage any required CD support, which the partner acquires with properly budgeted funds. CD is "on budget" and "on plan" as much as any other activity agreed in a sector programme or in the framework underpinning budget support.

Tips& tricks:
Keep controversial themes on the agenda

In budget support modalities, donors and partners increasingly focus on medium term outcomes in their dialogue, and explicitly avoid shorter term changes in e.g. public sector services and products – the level where CD should demonstrate results. The focus on outcomes is not least a reaction to previous traditions of micro-management by donors.

From a CD point of view, recognising how difficult is has been to achieve sustained progress in this crucial area, - it is still highly necessary to focus on dialogue about more immediate changes in services and outputs, and even in internal capacity parameters like e.g. financial management capacity.

Resolute monitoring, as well as technical and analytical inputs about future CD steps, are required to enable an informed dialogue between the partners. Donors should not step back from this kind of engaged accompanying of CD processes.

Even in this ideal situation, where donors would have no direct implementation role, partners may demand assistance to various stages of this process, e.g. deciding on scope and sequencing of CD processes, identifying quick wins, prepare terms of reference for external assistance, or getting access to world class expertise. Careful attention should be given to assess if there is actually a *demand* for such assistance, and not just a "need". Supply-driven assistance to CD is mostly only marginally effective, even if inputs and processes are eventually managed by the partner.

There may be cases where partners may request donors to play a more active role in managing CD support (co-decide or no-object on terms of reference, contracting and supervising TA or training in-country, regionally or abroad). Even where government capacity has been assessed sufficient to warrant sector or general budget support, the orga-

nisations requesting CD support may find that their own capacity to manage this particular kind of support is limited. Government systems may not be able to react quickly and flexibly, or to procure international consultants, or establish networks or exchange of experience with parallel organisations in the region.

Specific and even discrete donor support to CD can be effective when it is based on a clear demand for such support, clear domestic commitment to CD and strong national leadership of the process, including effective coordination of aid from different donors. The support must also be of good technical quality, but the key determinants for success is not generically linked to specific kind of inputs – both long term, short term, international and national TA, training, coaching, staff exchanges, peer learning, twinning etc. may be relevant and effective i*f there is an enabling environment for CD*. If there is no such environment, donor inputs to CD – as well as any other inputs – will stand far fewer chances of being effective.

Donors may engage to build up demand for change and CD, supporting potential reformers, providing access to knowledge, piloting different approaches, facilitate dialogue between domestic stakeholders, etc. Broad based CD will in most cases, however, only happen once demand for CD is sufficiently strongly rooted in the local context, inside and around the relevant organisations.

This may mean that donors can sometimes do less for CD than they would have liked to. Their effectiveness does not depend only on themselves, but on how well they adapt their support to the context. Donors can, however, by doing less and doing it well, do better for capacity development.

8. Selected References

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