BOLD THINKERS DRIVING REAL-WORLD IMPACT

GOVERNANCE
WORKING PAPER SERIES

Capacity Development and State Building: Reflections and Lessons

Graham Teskey

Preface

Since its founding in 1965, Abt Associates has sought to pursue new and better ways of delivering community and development assistance. Initially much of Abt Associates work was focused in the fields of health and social policy. Today, the company applies its technical and program capabilities into the governance arena – including on issues of front-line service delivery, community-driven development, local governance, economic and public sector management and leadership and coalitions.

Abt Associates sees 'governance' as much more than a sector: it is a way of thinking about how development and change occur. Abt Associates seeks to apply 'governance' as a way of thinking and working across all sectoral and governance-specific investments. Our approach is distinguished by:

- investing in local staff and relationships, networks and partnerships;
- integrating real-time, high quality contextual and political analysis into our programming;
- focusing on good-fit, locally defined problems and solutions;
- focusing on approaches and solutions that first and foremost are politically possible – as well as technically desirable;
- working with the 'progressive grain', acknowledging that change cannot be driven by outsiders;
- using iterative, adaptive and responsive programming techniques; and
- focusing on enabling and equipping local leaderships, rather than doing.

We are learning huge amounts about doing development differently as we implement three large Australian Government-funded Facilities - in Timor Leste, Indonesia and Papua New Guinea. In each case, Abt Associates works closely with our local counterparts as well as the Australian Government to tackle the most critical governance challenges each country is facing. From this experience we know that the process of 'state-building' is one which must – first and foremost – be led by a country's own citizens and leaders. However, there are helpful ways in which external actors can contribute to this process.

This paper, the fifth in *Abt Associates' Governance Working Paper Series*, addresses this issue. Where and how can external actors be useful in the process of state-building and capacity development, and what is the relationship (if any) between them?

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Author's foreword

This paper is a (slight) update of the original, drafted in 2005, when I was working for the Department for International Development in London. While versions of this paper have been floating around cyber-space, it has never been formally published.

We are publishing it now, in 2019, in light of Abt Associates ongoing work in implementing three large Facilities on behalf of the Government of Australia, in Indonesia, PNG and Timor Leste. The high-level goal of each of these three Facilities is *to build an effective state*. This requires the (very) small Abt Associates Governance Team to grapple with some fundamental questions about the nature of a state: how do states get 'built'? What is the nature of the historical process under way? How do institutions – the infamous rules of the game – emerge, take root and sometimes change? How do we bring our meagre understanding of these issues to bear on programming? What does it mean in terms of partnership with our host government? What does it mean in terms of understanding and recognising the challenges and pitfalls? In short - what can a managing contractor do to assist in building an effective state?

Indonesia, Timor and PNG could hardly be more different – in geography, language, resources, population, strategic location and in their respective 'place in the world'. Yet in terms of improving state performance and functionality, similar challenges recur. Why are public services ineffectively, inefficiently and inequitably delivered? Why are many public servants poorly motivated? Why is state capacity perceived to be weak? And why do external partners often persist with modalities for which there is little evidence of success?

This paper discusses some of these questions. It reaches two conclusions. The first is that capacity development is difficult, but not impossible, to achieve. This is not only because it is conceptually confused, but also because in most cases it requires a series of inter-related, technically complex, organisationally challenging and politically risky changes to the way any state conducts its business.

The second, conclusion is that donors can indeed contribute to state-building. While the political economy of the state itself will influence if not determine the extent to which an 'effective, developmental' state can emerge, where donors are able to work with a judicious mix of critical state organisations, supported by focused institutional reforms, following incremental procedures while resisting the temptation to impose overly technical or managerial solutions, then the evidence suggests that organisational capacity can be, in some ways, built. What is not yet known is whether such capacity then translates into state capacity.

These two conclusions will probably be obvious to seasoned practitioners. However, as I age, inexorably but as gracefully as possible, it is clear that these lessons are not at all clear to many of my younger colleagues, some of whom hold positions of real responsibility in donor agencies and contracting firms alike. Another reason for publishing….

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1. Introduction: getting to Denmark

1.1   In one of his less well-known books, Francis Fukuyama popularised the term 'getting to Denmark'[1], where Denmark is a typical example of a developed country with well-functioning state institutions, where formal rules of the game (rather than informal ones) influence and often determine individual and collective behaviour. He argues that while we know what 'Denmark' looks like, the histories of Denmark and other rich country experiences, and the specific things that were done to improve their overall governance, we do not know how – or even whether - to apply this knowledge to poor countries.

1.2   This observation chimes with development experience. In the United Kingdom reference is often made to changes in the emerging public sector over 160 years ago. In his 2005 valedictory lecture, the outgoing head of the Civil Service, Sir Andrew Turnbull noted: "I have come to the conclusion that the Civil Service has been strongly shaped by the Northcote-Trevelyan report and the traditions which have developed from it"[2]. These traditions included a permanent and impartial civil service accountable to Ministers who are in turn accountable to Parliament; recruitment and promotion on merit; and which is organised into departments each of whom has a Secretary of State accountable to Parliament.

1.3   In terms of building effective and capable states, a key question today is how much of the history of rich countries, including other 'Denmarks', is transferable to Afghanistan, Papua New Guinea or Zambia? Fukuyama asks if there can be a general theory of capacity development or state building that can provide a basis for policy guidance in developing countries. The answer he gives is mainly no, but partly yes.

1.4   The purpose of this paper is to expand upon that answer; which are the nos, and which are the yes's. More specifically, the paper seeks to summarise what is known about the components of that partial 'yes' and suggest lessons for external partners that arise from the 'nos'. It underlines the importance of being aware that we are less able to 'build' capacity than we would wish, of distinguishing clearly between the areas where donors probably can contribute and those where they probably cannot, of avoiding actions which push in the wrong direction, and of being realistic about the time periods involved.

1.5   This paper reaches two conclusions. The first is that capacity development is difficult, but not impossible, to achieve. This is not only because it is conceptually confused, but also because in most cases it requires a series of inter-related, technically complex, organisationally challenging and politically risky changes to the way any state conducts its business. Fundamental increases in state capacity, which often threaten entrenched interests, need to be built over a long period of time: the Northcote-Trevelyan reforms quoted by Sir Andrew were enacted in 1854. It has taken the UK and Denmark a century or more to get to Denmark.

1.6   The second, more positive, conclusion is that donors can indeed contribute to state building. While the political economy of the state itself will influence if not determine the extent to which an 'effective, developmental' state can emerge, where donors are able to work with a judicious mix of critical state organisations, supported by focused institutional reforms, following incremental procedures while resisting the temptation to impose overly 'technical' or 'managerial' "solutions", then the evidence suggests that organisational capacity can be, in some ways, built. What is not yet clear is the extent to which such

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[1] 'State-Building: Governance and World Order in the 21st Century'. Cornell University Press, 2004. The phrase 'Getting to Denmark' was first coined by Michael Woolcock in the World Bank
[2] Given at Her Majesty's Treasury, Tuesday 26th July 2005

organisational capacity then translates into state capacity. The remainder of this paper expands on these issues.

2. Structure of the paper

2.1   The paper has five further sections. Section three sets out the problem at hand. Section four considers the difference between capacity development in individual organisations and capacity development at the level of the state. Sections five and six form the heart of the paper, presenting in turn some broad contextual lessons and some more direct operational implications. The final section concludes by summarising what we still need to know.

3. Defining the problem

3.1   In its 2017 World Development Report[3], the World Bank pointed to the critical role of governance—the way in which individuals and institutions interact and exercise power to pursue their interests—in hindering or promoting development. Indeed, such thinking has been echoed for many years by donors, prominent academics[4] and national governments themselves. In 2005 the UK-sponsored Commission for Africa (CfA) stated that if Africa were to achieve the Millennium Development Goals, improved governance will be required. The CfA report noted that better governance will require states to be accountable to their people and to have systematic capacity to deliver services, maintain law and order and raise and manage resources effectively.

3.2   For external partners, the question posed by the CfA in 2005 remains relevant today: w*hat can be done by donors to increase the administrative and bureaucratic ability of their partners to use limited volumes of aid in effectively meeting the MDGs, and tody the SDGs?*

3.3   Formulating the issues this way begs three further questions:

- do we know enough about 'state capacity': what it is and how it comes about?
- if we think we do, does it follow that we know how to design programmes to develop of build 'state capacity" further? And
- does building state capacity differ in any way from building organisational or institutional capacity?

3.4   In answering these questions, we will need to consider whether building state capacity is 'merely' the sum of building capacity in the individual organisations that make up the state. If it is, do we know which organisations are the most critical for development? If it isn't, what is missing? This paper attempts to provide some answers. In so doing it draws on recent research evidence as well as a number of critical essays and evaluations.

3.5   Considering these questions requires us to recognise that the term 'capacity development' is meaningful only when described. The capacity needed by small-scale civil society organisations will be very different to the capacities needed by a multinational corporation, which in turn will be different to a ministry of water and public works. To build state capacity is the most ambitious and challenging of all. We know however that more effective development will take place only when the state has the capacity to plan, prioritise, mobilise and account for financial and human resources and deliver goods and services for the public good.

3.6   We know of course that a state is a political 'organisation' with a centralised government that maintains a monopoly on the legitimate use of force within a certain geographical territory. But any state is rarely a single, coherent entity. In the sense it is being used here the term state includes a plethora of

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[3] World Bank 'Governance and the Law'. World Development Report 2017
[4] See for example Merilee Grindle, Francis Fukuyama, Douglass North and Elinor Ostrom

organisations, departments, agencies, councils, assemblies and networks. The overall capacity of the state will be determined by (at least) two things: first, the specific capacities of those organisations that make up the state, and second, by the extent to which the formal and informal 'rules of the game' which bind together and discipline those organisations (the institutions of the state) encourage a focus on quality, delivery and performance. The next section investigates this relationship a little more.

4. Organisational capability and state capacity

4.1   Capacity building is a rather unusual subject in development in that it has no agreed definition[5], it has no formal academic body of knowledge and there are no university courses teaching it. In the private sector it is usually called business management. There are some byways of mainstream disciplines that explore capacity questions, such as the 1990s discussions of 'new public management' and the 'new institutional economics'. Because of the lack of conceptual clarity, the term capacity development (or capacity building – some writers even like to argue over this distinction) is often used synonymously with institutional development and sometimes even state-building. One result of this confusion is that discussions of 'capacity development' are limited to calls for more individuals to be trained, or for more technical people from developed countries "to help out"[6].

4.2   Is there a practical difference between the two? There is - and appreciating that difference will lead to different interventions and activities. Organisational development can be likened to coaching a soccer team. Which players should play in which position? What should be the team's tactics? At what point should we bring on a substitute? Should the team play a sweeper? By contrast institutional development would focus on the rules of the game. Should the offside law be changed? Are the goalposts too small? Should we allow 13 players instead of 11? And perhaps most importantly of all, should the team give up playing soccer and take up cricket instead?

4.3   It is only since Douglass North won his Nobel prize in 1993 that donors turned their attention to institutional development. The Department for International Development in the United Kingdom first established its Governance and Institutions Department in late 1995. Since then, donors have learned that individual organisations exist in a wider framework of formal and informal institutions. We know that although building capacity at the organisational level is a necessary component of building a capable and responsive state, it is insufficient. Complementary efforts are also required to reform, revise and amend the wider framework - and sometimes to try to create new formal and even informal 'institutions'.

4.4   What does capacity development look like at the organisational level? Capacity here is the ability of organisations (not individuals) to carry out, effectively and efficiently, programmes of coordinated action in pursuit of formal organisational goals. This is not necessarily a definition. We do know however that an organisation has capacity when it can:

- identify, plan, prioritise, implement, monitor, and learn from specific courses of action;
- mobilise, deploy and where necessary motivate resources (assets, people, money and information) consistently and continuously on agreed public priorities; and
- discipline a heavily constrained system to pursue agreed objectives collectively.

4.5 Three elements here are important:

- it is organisations that have capacity. Individuals have skills and competencies;

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[5] Although there is no agreed single definition, there are many competing definitions. A common problem is that the term is often used loosely, and this can lead to simplification and misunderstanding

[6] This critique was spoken in plenary by Peter Morgan, a freelance CD researcher and writer, at the Capacity Development Day at this year's WBI 50th Birthday celebration. Washington, 8th June 2005

- organisations also have particular and specific capabilities to do things such as manage people, carry out customer research, account for the use of monies etc. Capabilities are thus the building blocks of any organisations overall capacity to perform[7]; and
- organisations operate in a wider institutional environment that either may support or circumvent the organisation's ability to carry out its formal collective goals.

4.6   Organisational capacity development is about getting appropriately trained and skilled people in the right posts at the right time, in organisations that are "fit for purpose" and which operate in an environment with appropriate formal and informal incentives. This is simple to say, but often rather difficult to deliver.

4.7   **But individual organisations do not constitute states, nor are states made up of organisations alone**: Changing business practices can take an organisation a long way. But inevitably organisations will run up against institutional barriers and constraints. Donor sector specialists often note that little more can be done to improve effectiveness and efficiency within 'their' sectors unless public service-wide rules and regulations (regarding pay, recruitment, postings etc) are changed. Even changes to the formal institutional rules of the game may have little impact if the informal rules of the game (the ones that really do drive behaviour) remain embedded. If the dominant value is that public office is there to be exploited for private gain, strengthening procurement regulations or contracting will achieve little. It is this wider political economy of institutions that will determine 'state effectiveness'.

4.8   We therefore need to be aware that strengthening key organisations may not automatically lead to improving state capacity. That said, strengthening specific organisations would, for two reasons, remain one of the most appropriate means to building state capacity. First, building the capacity of key organisations should have a positive impact in themselves (see the example given in figure 7). Second – and more important – is that strengthening and changing current business practices of key state organisations will of themselves have an impact on the wider institutional framework and on the values and attitudes that shape individual and collective behaviour.

4.9   This then should be the framework in which we approach the question of 'capacity development'. State capacity will be built through both organisational and institutional change, and organisational capacity development is something to which donors can contribute. But this will only take us so far. Institutions must change too – and this is more complicated, less understood and longer-term. The next few paragraphs seek to explain why changing institutions will be more difficult.

4.10   **States as institutions:** In the book referred to at the start of this paper, Fukuyama identifies four key 'institutional' features of any state. While there is nothing uniquely right about this approach, it does show clearly and simply the different institutional dimensions of the state within which donors work – and which is often ignored (or even not understood):

- organisational design and management;
- political system design;
- the basis of legitimation; and
- cultural and structural factors.

4.11   The first category, organisational design and management, refers to just that: how specific organisations are structured and managed, how they operate and how they function. It is the area with which donors are most comfortable, and where most donor work is located (public service reform efforts, capacity development initiatives etc). It draws on insights and concepts from management studies and public administration.

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[7] ECDPM. "Study on Capacity Change and Performance". Interim report, January 2005

4.12   The second category has to do with broader questions of institutional design at the level of the state as a whole. Political system design refers to the structuring of political institutions- there is now a declining debate about which comes first - economic growth or democracy? Mushtaq Khan has demonstrated clearly that the answer is economic growth[8]. Politicians clearly struggle with this – David Cameron embarrassingly talked of "The Golden Thread", arguing that all good things come together[9]. They don't. Julian Baggini, a philosopher working far outside of development studies let alone governance, noted recently that "western democracy, for example, cannot simply be exported or imposed on countries with very different histories and cultures[10]".

4.13   The lesson is clear: that while we can identify how a specific set of institutions emerged in one country and how they contributed to that country's growing 'state capacity', we cannot construct any wider theory of capacity growth that is always and everywhere applicable to other circumstances, contexts and countries. In short, because we can trace how Denmark got to Denmark, it does not mean that we know how we can help Zambia get to Denmark.

4.14   The third category is legitimation. This is a normative concept and refers to the extent to which citizens of a country perceive the formal and informal institutions that govern their country as being somehow 'right'. The literature distinguishes between *process* legitimacy (accountable, transparent and representative government achieving power through a free and fair election) and *output* legitimacy (delivering poverty reduction, charismatic leadership, hosting the Olympics, burnishing national esteem etc). While the former is emphasised by the international community, it is clear that legitimacy comes from a variety of sources. The lesson is that different perceptions of legitimacy are real and that it is only when they change that domestic demand is created for these *institutions* to change.

4.15   Finally, cultural and structural factors. These are the norms, values and other cultural mores extant in society. Formal rules can be changed overnight; cultural rules emerge and solidify over time. An example of this is in Tanzania, where the strong egalitarian ethos has prevented and continues to prevent more active performance management in the public service.

4.16   What are the implications of this? If we accept that states are more than the sum of the individual organisations that make it up, then donors will need to consider the extent to which they are able to bring about change in the latter three areas of 'stateness'. The following two figures indicate that the potential for donors to bring about change here is limited.

4.17   Figure 1 shows each of the four above components, their disciplinary source, and most importantly, their respective degrees of transferability. It is only in the area of organisational design and management that there is any degree of transferability. This has major implications for institutional capacity development. It tells us that while we may be able positively to influence capacity at the organisational level, it will be much harder to do this at the institutional level – the level at which state building takes place.

Figure 1: Transferability of institutional development

Institutional dimension	Disciplinary background	'Transferability'
Organisational design and management	Management, Public administration, Economics	High
Institutional design	Political science, Economics, Law	Medium
Basis of legitimation	Political Science	Medium to low
Social and cultural factors	Sociology, Anthropology	Low

Source: Fukuyama, op cit, page 23.

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[8] Mushtaq Khan 'Governance and Development'. Paper presented at the 'Workshop on Governance and Development' organised by the World Bank and DFID in Dhaka, 11-12 November 2006
[9] David Cameron, Op-Ed in the Wall Street Journal, 1st November 2012
[10] Julian Baggini 'How the World Thinks; A Global History of Philosophy". Granta, London 2018 p xviii

5. Some broad contextual lessons

5.1   The paper so far has tried to demonstrate three things:

- that organisational development is a necessary but insufficient component of state building;
- more often than not it is *institutions* that are the real challenges for capacity development; and
- that it is particularly difficult for external actors (especially external partners) to bring about 'development' in those institutions.

5.2   This section presents some broad contextual lessons that have been learned about capacity development. Section six then presents some operational implications that give us some cause for optimism.

5.3   (i) It is not all bad news. The first lesson is that not all capacity development efforts have failed. While the evidence shows that capacity development is difficult to achieve, it is not impossible World Bank research on sub-Saharan Africa shows that capacity has been built where modest, incremental reforms have been pursued in politically supportive environments[11]. By contrast, comprehensive reform has almost always failed everywhere. Success depends on the wider institutional environment in which reform takes place. Real increases in capacity have been achieved within small windows of opportunity when what is technically appropriate aligns with what is politically expedient.

5.4   (ii) Capacity development is not always a long-term venture. While it is undoubtedly the case that capacity development at the organisational level (and certainly at the state level) is likely to take several years, this is not always and everywhere true. Recent research has shown that organisational capacity can be built in the short-medium term. If the circumstances are propitious then, following the 'non-definition' offered in paragraph 4.4, organisations can acquire the capacity to carry out, effectively and efficiently, programmes of coordinated action in pursuit of formal organisational goals. Part 6 discusses in more detail 'propitious' circumstances.

5.5   (iii) State building is a governance challenge, not an organisational capacity challenge: We have learned, first and foremost, that building state capacity is a governance challenge – it is about the exercise of power and authority. While more training, better equipment, more staff and organisational restructuring can improve organisational capacity, without broader institutional reform, it is unlikely that sustainable improvements will be made. It may be possible (and desirable) to nurture isolated 'islands of excellence' but wholesale improvements in the institutional quality of the state are difficult to bring about through organisational change alone. We know also that while capacity initiatives can be designed for specific organisations, each organisation is only as good as the wider institutional environment – the rules of the game - in which it operates.

5.6   Practitioners today recognise a threefold dimension to capacity development. Back in 2005 the World Bank accepted that capacity is "about skills, performance and governance. The concept of capacity has evolved significantly from a narrow pre-occupation with training and technical assistance to dealing with the capacity of individuals, organisations and the broader institutional framework within which they operate to deliver specific tasks and mandates"[12]. DFID's one-time distinguished Chief Economist, Adrian Wood, put the issue in a nutshell; noting that often (but not always) staff in partner countries could be "untrained, unorganised and unmotivated"[13].

5.7   There are clear lessons to learn from history[14]. In the 1960s and 1970s early attempts at capacity development focused on the individual; providing training and skills, tools and equipment for individuals in

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[11] Brian Levy and Sahr Kpundeh: "Building State Capacity in Africa: New Approaches and Emerging Lessons

[12] Building Effective States – Forging Engaged Societies", zero draft, p 12. World Bank, August 2005

[13] Personal comment to the author, 2005

[14] Much of the next four paragraphs are taken from the 2002 DFID Governance Department paper "Capacity Development: Where are we now?"

key positions. The Overseas Development Administration (ODA as it was then) provided OSAS Officers[15] to fill capacity gaps, awarded scholarships, undertook 'manpower' (sic) audits and provided on-the-job training. By the late 1970s it was recognised that this had had little impact on organisational capacity[16].

5.8   In the 1980s the focus shifted to the role of the organisation. Understanding of capacity development moved from a focus on individual skills and competences to a focus on getting organisations re-structured and sometimes redesigned. Changes were made to systems for policy-making, systems for human resources and financial management, and changes to the way in which services were delivered. ODA undertook organisational audits, job evaluation and grading studies and provided advisers rather than officers in line positions. Such organisational change involved the redesign of structures, changing job responsibilities and management spans. The dominant analytical mode was borrowed from the private sector: the approach was influenced by what became known as 'new public management' and the experience of New Zealand (in particular), Australia and the UK. The approach was overwhelmingly technical.

5.9   But organisations in many parts of the developing world remained stubbornly unreformed - change and improved capacity remained distant objectives. Again, the question was asked - why? A decade later it was realised that while a focus on the individual and the organisation remained necessary, by themselves they were not sufficient. Developing capacity requires more than staff training; it requires more than the organisation being reasonably well structured with the systems to implement policy priorities and with good management. It also requires institutional change and reform as well. In the early 1990s the importance of ideas underpinning the role of institutions began to be acknowledged. It was accepted that even directed organisational change may not succeed if the wider institutional framework is not supportive. These institutions are both formal and informal. Formal institutions include the legal system, property rights, the relationship of the executive to the legislature etc. Informal institutions are the norms and values that influence individual and collective behaviour.

5.10   Thus, emerged in the 1990s (after Douglass North!) the realisation that it is only when these three sets of elements (the individual, the organisation and the institutional environment) are aligned that capacity is developed on a sustained basis. In many developing countries these three elements are not in alignment. Where staffs are trained, organisational structures may inhibit performance through top heavy or ineffective management, for example. And even where organisations are well structured and well managed, performance may still be poor due to weak incentive regimes (low pay, the dominance of "shadow systems" where everyone knows the formal rules of the game do not apply, nepotism in appointments and promotions, the absence of effective discipline, no commitment to the objectives and culture of the organisation etc). We now know that turning individual competence into organisational capacity requires institutional change.

5.11   The capacity challenge is in effect, a governance challenge. The governance challenge can be simply stated: only when the formal and informal incentives embedded within a countries broader institutional framework (i.e. the three tricky areas identified by Fukuyama) are aligned and are supportive, only then will individual and specific organisational capacity deficits be remedied. Where the rules of the game do not create the patterning of incentives needed to generate high quality organisational performance, it is extremely unlikely that line ministries will be able to deliver the SDGs. In short, unless there is 'capacity' at the institutional level, organisational capacity is likely to be stunted to a greater or lesser extent.

5.12   Figure 2 presents the World Bank's take on the interplay among these three levels (individual, organisational and institutional).

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[15] Overseas Supplementation Aid Scheme
[16] It is frustrating that some donors seem to persist in this view

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Figure 2: The World Bank on capacity issues

First, enhanced capacity should be treated as a goal in its own right, not merely as a means for achieving other development objectives. … The capacity building approach [of the early 1990s] emphasized that a root cause of poverty, illiteracy, and ill health was lack of capacity: in government, to design and implement proper development strategies, and, in society, to hold government accountable for its actions. Only if political and economic institutions functioned properly would development achievements be scalable and sustainable. Second, support for public sector capacity building needs to address three dimensions of public sector capacity:

1. **Human capacity:** individuals with skills to analyse development needs; design and implement strategies, policies and programs; deliver services; and monitor results.
2. **Organizational capacity:** groups of individuals bound by a common purpose, with clear objectives and the internal structures, processes, systems, staffing, and other resources to achieve them.
3. **Institutional capacity:** the formal 'rules of the game' and informal norms – for example, in collecting taxes, reporting on the use of public resources, or regulating private business – that provide the framework of goals and incentives within which organizations and people operate. …

Third, demand as well as supply factors shape capacity constraints and capacity building opportunities and outcomes. Public sectors are often weak. Not just because of their lack of capacity, but also because their weakness benefits powerful interests. … Therefore, capacity-building efforts will succeed only where they take adequate account of the prevailing local politics and institutions, and are country owned rather than donor driven.

Source: World Bank Operations Evaluation Department: Capacity Building in Africa. An OED Evaluation of World Bank Support, The World Bank, Washington DC, 2005, pp 7-8.

5.13   (iv) Matching role and capability: The fourth lesson is that in the words of the 1997 World Development Report, donors should not forget that *we must attempt to match the role of the state with its overall capability.* The WDR argued that uncritical 'rolling back the state' was a deeply flawed approach in many poorer countries. In exhorting countries to restructure their economies and privatise much commercial enterprise, it was forgotten that the capacity required to manage any sell-off and then regulate the private sector is rather more sophisticated than running those enterprises in the first place.

5.14   We now know that strong states are definitely needed – but where strong means capable not authoritarian. Further, it is recognised that as weak states are weak, not all state capacities can and should be strengthened at the same time. We know that states do indeed need to be strong, but that their scope needs to be limited; this has been described this as the "new conventional wisdom"[17]. The operational implication is that capacity needs to be built in certain key areas – not overall, everywhere and at once. This reinforces the importance of an incremental approach (and takes us into the area of good enough governance[18]).

5.15   (v) Incremental not big bang: The fifth lesson is that incremental approaches are more likely to work than grand strategies and wholesale reform. Callisto Madavo's World Bank capacity team concluded in the early 2000s that comprehensive and long-term public service reform is not feasible in most African countries. Only Tanzania came close and those reforms have not been sustained. The reason for failure is simple: the deeply embedded way in which many developing country states are constructed. In Africa especially, the state historically been - and sometimes still remains - a vehicle for personal enrichment. The much-missed Sue Unsworth noted in her work for the UK's Department for International Development that there is often no clear boundary between the public sphere and the private sphere.

5.16   The lesson for capacity development is that where resistance to reform is strong, whole-of-government reform is pointless. Far better to proceed by identifying what Brian Levy, at the time working at the World Bank called 'strategic incrementalism'[19]. This requires identifying specific organisations (and indeed specific capabilities, like budgeting or accounting) that play a strategic role in establishing incentives

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[17] Fukuyama, page 21
[18] Merilee Grindle "Good Enough Governance: Poverty Reduction and Reform in Developing Countries. World Bank 2002, and "Good Enough Governance Revisited". Paper for DFID, February 2005
[19] Brian Levy; op cit chapter 1

and the rules of the game. This is best done incrementally, on good fit rather than best international practice principles, and setting goals that are politically feasible rather than technically optimum. In thinking then about such approaches, there are important questions of sequencing.

5.17   (vi) While technical or managerialist solutions alone are unlikely to work but getting it technically correct is vital: We have learned too that donors should resist any temptation to impose technical or managerialist solutions in contexts which are not politically conducive to change. We have learnt that even what are technically 'first-best' solutions are unlikely to work in highly politicised environments, where the informal rules of the game (rent-seeking, extortion, whatever) predominate over the formal rules of the game. We know that it is essential to understand what really drives decision-making systems (be they for policies, for people, or for processes), rather than what the formal constitution or the rules and regulations say. If we understand the political economy (the context) then we will be more able to judge how feasible capacity development initiatives will be.

5.18   It should be emphasised that this does not mean donors ignore technically sound solutions; on the contrary – unless organisational development proposals are sound they definitely won't work even in good institutional environments. It does mean however that donors recognise two things:

- that first-best technical solutions may not always be developmentally first-best; and
- that political context usually sets the limits for what is technically feasible.

5.19   The different analytical perspectives provided by 'functional-rational' and 'political' approaches have been convincingly argued in a recent DANIDA paper[20], as in figure 3 below.

Figure 3: Contrasting technical and political approaches

Issue?	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-interest, in shifting coalitions; focus on power-and-loyalty systems
What driving forces are emphasised?	A sense of norms and coherence, intrinsic motivation	Sanctions & 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, finding the powerful agents who can force positive and negative capacity 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

5.20   The above table summarises much of what is wrong with most approaches to organisational capacity development in the donor world today. Even a cursory examination of the Requests for Tender issued by many bilateral donors reveal an overwhelmingly functional-rational approach – even when simultaneously calling for contractors and consultants to 'think and work politically'.

5.21   (vi) Finally- money is rarely the main problem. The main problem is usually that capacity development is hard to achieve even in the most propitious of circumstances. The next section seeks to summarise some operational implications and identify what constitutes 'propitious circumstances'.

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[20] Nils Boesen and Ole Therkildsen; "Between Naivety and Cynicism: A Pragmatic Approach to Donor Support for Public sector Capacity Building", DANIDA, May 2004

6. Some operational implications: putting ideas into practice

6.1   There are several operational imperatives that should inform the design stage of any capacity development initiative. While they will not provide the answer, they should improve the relevance of the change process and increase the likelihood of success.

6.2   (i) Define precisely the challenge. The most important task in any exercise designed at "building" capacity is to understand precisely the nature of the agency whose capacity is to be built. Are we talking of organisations or institutions? If the latter tread carefully. Also, be clear about the nature of the mix of OD and ID activities that will be undertaken in the programme.

6.3   (ii) Choose the organisation carefully. Choose, for organisational capacity development initiatives, those organisations whose activities are of high political priority. The evidence shows that it is easier to design and implement capacity development initiatives in organisations that address issues that are high on the political agenda. In these circumstances, initiatives for individual training, organisational change and institutional reform will be (either) more welcome or at least, less opposed.

6.4   (iii) Understand the range of interests involved. If we are focusing on organisations, it is vital to understand the structure and patterning of political interests and incentives. In the Rwanda Revenue Authority example discussed in paragraphs XXXX below, it would have been a straightforward exercise (conceptually at least) to map the incentives of key stakeholders. The Ministry of Finance would have had an overwhelmingly strong desire to maximise revenues – particularly so in the aftermath of the genocide. Given that the Minister of Finance was the Principal, it became possible to incentivise the staff of the RRA (the Agents) to deliver what was required. Those opposed to a strengthened and effective RRA (individual taxpayers, businesses) were in a weaker position to resist. Even the outcome of their lobbying should be seen as positive – what Professor Mick Moore at the University of Sussex called a 'negotiated settlement' between state and society over what is arguably one of the two most central and crucial functions of the state; raising revenues[21].

6.5   (iv) Understand the notion of 'specificity': One of the most powerful lessons to have been learned about capacity development over the last 20 years was identified in 1987 by an economist working at the World Bank[22]. He argued that the more *specific, monitorable and limited* the task to be performed, the easier will it be to develop organisational capacity to do it. The key idea is 'specificity': the ability to monitor an output. The more an output can be monitored the greater the likelihood of ensuring its quality and timeliness. The classic case is a jet engine maintenance engineer for an airline. The work to be done can be easily and quickly monitored, and will have major (visible, immediate) consequences if not done properly. The opposite case is a career's guidance counsellor. Here the 'quality' of guidance provided can hardly be measured at all. It will be years before the impact is known, and probably not then either.

6.6   The implication of this is that capacity development will be easier to achieve in organisations where there are a few specific (and clearly monitorable) decisions to make. Conversely, it is much more difficult to achieve in organisations where there are many thousands of unspecific ones. This explains why it is relatively straightforward to improve the capacity of a central bank whose responsibility it is to manage the exchange rate, and why it is much harder to improve the nationwide quality of primary school education: the former relies on the judgement of a handful of highly trained economists (who could be parachuted in on technical assistance contracts for two or three months), while the latter relies on the performance of thousands of (probably) partially trained teachers whose performance is rarely monitored or assessed. By the time any assessment is made, it is too late for the children concerned.

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[21] The other being the effective control of all the territory of the state
[22] Arturo Israel: "Institutional Development: Incentives to Performance". World Bank,1987

6.7   This concept of 'specificity' indicates just how ambitious and difficult to achieve are the primary health and education SDGs. System-wide improvements in education will require the consistent application of higher standards of teaching, marking, reporting, recording and examining by thousands of individuals, mainly working in systems that often have few incentives for performance and quality.

6.8   A good example of the power of the specificity principle is the Ministry of Finance in Uganda in the mid-late 1990s. Here, under the extremely competent technical leadership of the Permanent Secretary, Emmanuel Tumusiime-Mutebile, and the supportive political leadership of the Minister, a nucleus of capable, motivated and disciplined civil servants reformed the government's budget, making it more transparent, targeted and results-focused than virtually any other in Sub-Saharan Africa. (It is worth noting here that in these circumstance successive DFID-funded Technical Cooperation Officers were able significantly to influence the positive nature of capacity development in the Ministry). The impact was sustained throughout the first decade of this century.

6.9   (v) Define the capacity task: Surprisingly few program documents that specify 'capacity development' as an output (or indeed as a purpose) give much information about what capacity building activities will be. It is vital that any initiative that claims to be about capacity development specify not only capacity for what, but also lists what activities will be undertaken. To do this a clearer articulation of the range of possible *organisational versus institutional* development activities is needed. (A consistent theme running through this paper is the distinction between capacity development for organisations and capacity development for institutions and state building.) Figure 4 presents such a list[23]. The items towards the top of the list are more traditional OD activities, while those at the bottom are more ID.

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[23] Ideas developed from Mick Moore (et al): "Doing Better at Institutional Development: The Experience of IDA Lending". June 2000, unpublished commissioned research for the World Bank

OD or ID?	Activity	Degree of "Specificity"	Measurable?
OD	Providing basic tools, machinery and equipment	High	Procurement Installation Use
OD	Building or repairing physical facilities	High	Completion Utilisation Maintenance
OD	Technical cooperation staff	Low	Job plans
OD	Training and mentoring programmes for individuals	High/Medium	Attendance and participation Numbers attending Impact evaluation
OD	Organisational twinning	Medium/Low	Exchange visits
OD	Improving quality of human resource management and training systems	Medium	Post-holder skills profile
OD	Strengthening existing systems for organisational management	Medium	Functioning and timely HR, procurement, accounting systems etc
OD	Business process re-engineering and organisational change (changing procedures for managing people, information, money, assets etc)	Medium	Recruitment and promotions practice Staff turnover Vacancy rates Clarity of vision and purpose Organisational structures 'fit for purpose' Annual plans produced and implemented
ID	Inter-organisational relations (committees, reporting lines etc)	Low	Accountability relations formalised and implemented Performance bench-marking Budgeting procedures clear and transparent
ID	Legislation	High	Drafted; debated; on the statue book
ID	Initiating policy reforms and policy making processes	Low/Medium	Policy clear and consistent Policy review procedures followed Policy processes transparent and consultative
ID	Adoption of 'international' norms and standards for governance and public-sector management	Low	Responsiveness Integrity Accountability The formal rules of the game apply!

6.10   Although the items at the top of the list (those that are oriented more to organisational development) are likely to be more 'specific', this is not always the case. The figure shows two interesting examples. The provision of technical assistance (TA) staff remains popular with donors, despite there being little evidence that it works. The figure shows one reason why: despite it being overwhelmingly an OD instrument, it is highly unspecific. By contrast, passing new legislation is very much an institutional development activity (changing the rules of the game) but it is highly specific and measurable. (Whether the legislation is implemented is another matter).

6.11   With that proviso, it is true generally that activities high up the list are more likely to:

- be defined and precise;
- involve tangible investments and to be relatively well suited to 'projects';
- respond to a relative dearth of knowledge, skills and training; and
- be relatively uncontested.

6.12   By contrast, activities located toward the end of the list:

- are more diffuse, involving changes to complicated systems;
- require more diverse modes of intervention, including greater use of influence and persuasion;

- often require changes in relationships within, between and among organisations; and
- are more likely to be contested and conflicting, as there is more scope to disagree about what needs to be done, and more interests are at stake.

6.13   The paradox here is that the sorts of capacity development activities that donors are likely to be 'good at' are not the ones that lead directly to significant improvements in state capacity. Figure 5 shows this diagrammatically; donors have limited ability to bring about change at the institutional level. This is a dispiriting conclusion.

<p style="text-align:center;color:red;font-weight:bold;">Figure 5: Impact of change on other system levels</p>

Positive externalities of good capacity on capacity at other levels	Likelihood of external actors being a positive catalyst on capacity		
	High	Medium	Low
High			*Institutional*
Medium		*Organisational*	
Low	*Individual*		
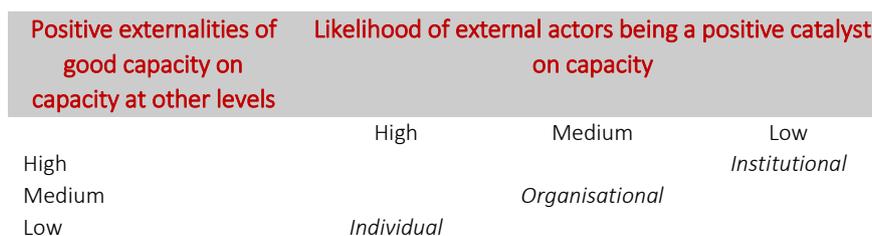
<p style="text-align:center;">Source: Lawrence Haddad, IDS Director, personal communication</p>

6.14   (vi) Know your sector. There are research conclusions that suggest that there has been more success in building capacity in certain sectors than in others. This sits alongside the more recognised conclusion that country context matters; other things being equal organisational development is more likely to succeed in a state that has a relatively stable and predictable institutional structure than in one which is institutionally chaotic, such as those emerging from conflict or where governance standards are declining. (These conclusions of course are couched at a high level of generality and it does not follow that interventions in these sectors will necessarily succeed or fail.)

6.15   The sectors in which donors appear to have had greater success in capacity development include banking, public financial management, and urban utilities. The sectors where results have been the most disappointing include: roads and highways, public sector reform; and primary health and education provision.

6.16   Success in the banking sector could be predicted based on the arguments regarding specificity. The tasks to be performed are precise and monitorable, with clear ramifications if performed badly. Similar arguments apply to public financial management. In urban utilities, the evidence suggests that where infrastructure was in place and management was weak, institutional change (changing ownership structures, connections and charging policies, bill monitoring and collection etc) could lead to considerably enhanced performance.

6.17   By contrast, experience in highways and public-sector reform is not as positive, but for different reasons. One report notes that "the paucity of institutional developments in the highways sector can be attributed mainly to the acute difficulties of combating the malign effects of rent-taking activities that tend to drive the actions of several of the stakeholders"[24]. The weak results in public sector reform come from the ambition of the proposals (wholesale change), the intrinsic political difficulty of the task, and often the very unspecific nature of what is being attempted.

6.18   Sector-wide education and health reforms are technically difficult; they usually require multiple capacity development activities to be implemented from the list given in figure 4 above, some of which are easier to deliver than others. The challenge is compounded by the need to bring about change at many levels in the sector, and within hundreds of individual organisations (ministry headquarters, curriculum

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[24] Moore et al, 2000. Op cit

development centres, schools, teacher training colleges, examination boards, hospitals, primary health clinics, nursing schools, etc).

6.19   (vii) Other factors. There are other things which are also likely to influence the chances of success with capacity development initiatives:

- ✓ as was alluded to in paragraph 6.8 above if there is *both* committed and competent political and technical leadership the chances of success are raised. The existence of one only may be a killer;
- ✓ replace best practice with good fit. External partners need to understand the structure and patterning of accountability and legitimation within the country. What may to outsiders seem to be an illegitimate organisation or structure may be perceived locally as the opposite. In these circumstances build on the positive and design 'solutions' that fit the circumstances and the context;
- ✓ remember that countries do not start with a blank slate. All countries have an institutional structure – a formal one and an informal one. The relative domination of one over the other will have to be judged. As a rule, we should not take the formal structure at face value and try to identify and understand the informal one;
- ✓ don't see capacity development as a linear process. Capacity may suddenly appear and equally suddenly disappear in parts of the system. If we see this happening, we should study it and try to understand the reasons;
- ✓ at the organisational level, it may pay off to start small – to judge the appetite for development and reform. It is always possible to widen the scope of the program;
- ✓ focus on accountability. The greater the demand for responsive and effective organisations delivering things that people actually want the greater will be the chances of sustainable change; and
- ✓ don't suck out capacity that already exists. Fukuyama takes this to the extreme by arguing that only if donors prioritise capacity development above all else, including the actual delivery of services, will capacity development and state-building be possible. He argues that any focus by the donors on service delivery will generate the wrong set of incentives and skills within the local bureaucracy; they will become adept at negotiating with donors and reporting to them, rather than negotiating with the citizenry. Fukuyama uses Michael Ignatieff's memorable phrase of 'capacity sucking-out' rather than capacity development. While this may be an extreme formulation of the principle (no project implementation units for example), it is worth reiterating.

6.20   And the conventions ….In addition to these dos and don'ts, there are a list of conventional exhortations to follow good practice. Figure 6 below is the DAC's list of 'Default Principles' for capacity development.

Figure 6: DAC default principles for capacity development

1. Don't rush. Capacity development is a long-term process
2. Respect the value systems and foster self-esteem
3. Scan locally and globally; reinvent locally
4. Challenge mindsets and power differentials
5. Think and act in terms of sustainable capacity outcomes.
6. Establish positive incentives
7. Integrate external inputs into national priorities, processes and systems
8. Build on existing capacities rather than creating new ones
9. Stay engaged under difficult circumstances
10. Remain accountable to ultimate beneficiaries

6.21   An example of success: One example that exemplifies many of the lessons laid out in this paper is the capacity development program in the Rwanda Revenue Authority. A review of the RRA made it clear

that most of the lessons were relevant in the success of the RRA initiative[25]. A summary assessment is shown in figure 7.

Figure 7: The Rwanda Revenue Authority

Lesson	Evaluation commentary:
1 Overall – a success!	"…..This case study identifies a number of success factors that have contributed to this remarkable achievement"
2 Time Frame	(This pragmatism)…"did not signal a lack of commitment to long-term support"
3 A Governance Challenge: individuals, organisations and institutions	"Looking in but looking also out. Efforts have also been made to manage the RRA's external environment. Over time the organisation has recognised that its capacity to perform is in part conditioned by external factors over which it has some degree of influence"
4 Matching role and capacity	"……..the RRA was given a strategic role to play within government's wider strategy of national reconstruction, poverty reduction and good governance…As the centrepiece of the government's domestic revenue generation effort, it was given a key role to play in meeting the aspirations of the government…"
5 Incremental reform not big-bang	"A pragmatic and incremental change process…"
6 Specificity of task	"…the RRA has 644 staff…….in three revenue collection departments………and has a clear mandate……..and has high expectations to perform"
7 Mix technical and political approaches	"Balancing hard and soft elements of capacity. Various capabilities have been developed that have contributed to the organisation's capacity to perform. This has meant working on 'hard' elements of capacity that contribute to internal efficiency and effectiveness; getting structures, systems and technology right and developing appropriate staff competencies. It also meant developing 'soft' capabilities that hold the key to translating capacity into organisational performance…. such attributes as visionary leadership and committed management that have nurtured a distinct corporate identity and value system, including a thirst for learning and critical self-awareness"
	"….(This) has allowed external technical and financial assistance to accompany the local change process, adapting to the local tempo of change and emerging priorities"
8 It's more than the money	"….over the years the partners have developed a 'grown-up' relationship based on frank exchange, team spirit and shared accountability for results….."

7. What we still need to know

7.1   This paper has tried to lay out some of the things that are known about capacity development. There remains however much that we are not sure about. Some of these unknowns constitute the nuts and bolts of capacity development. We can summarise them as follows:

7.2   (i) Competence, capacity and performance: What is the precise relationship among individual competence, organisational capacity and wider institutional performance? Which comes first? Will changed incentives alone improve organisational performance? Can organisations perform even when they operate in a degraded institutional environment? There is some evidence that some organisations can perform well despite the wider environment (Merilee Grindle's work in the late 1980s demonstrates this), but only if there is a very high degree of pride in the organisation (if it is a national treasure, so to speak) and if management is motivated and competent. There is no unequivocal evidence regarding the sequencing of initiatives designed to develop capacity.

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[25] Developing Capacity for Tax Administration: The Rwanda Revenue Authority". Tony Land, ECDPM Discussion Paper no 57D, November 2004

7.3   (ii) Using TC. The second unknown is how best to use technical assistance. TA is one input and one input alone in capacity development. The conventional wisdom is that gap-filling TA has failed and that advisory posts are better at producing long-run capacity. However, given that on average over the past ten years donors have spent $4 billion a year on TA in Africa alone, it would appear at first blush that it has not been much more successful either. In short there is no universal answer to the question of the efficacy of TA. In certain circumstances it can be helpful; in others it can be positively harmful. Judgements on when and where to use it will again be case specific. But if it is used it should follow some basic principles (see figure 6).

7.4   (iii) What would a state-building capacity development plan look like? Given the interdependence of individuals, organisations and institutions, we are not sure if it is possible for donors successfully to design and execute capacity development programmes at the institutional (state-building) level. What would such a plan look like? If state capacity develops with growth, then we should worry more about growth and less about developing institutional capacity.

7.5   Even at the organisational level, it is often unclear where to start any program of capacity development. Does one start with systems, or with people, or with the rules of procedure, or incentives, or values, or culture, or the leadership, or the external environment….? In any one specific case which bundle of factors are the determining ones? There are no unequivocal answers to these questions.

7.6   (iv) Returns to capacity development. Finally, we have little idea of the economic returns that flow from all the money we invest explicitly in capacity development or implicitly through technical assistance. This is sobering.

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