

LENPA Spring Forum 2005

Synthesis Report

# Capacity Development under Program Based Approaches

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## Abbreviations and Acronyms

ASDP	Agriculture Sector Development Program
CD	Capacity development
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DBS	Direct Budgetary Support
DFID	Department for International Development (UK)
EC	European Commission
ECDPM	European Center for Development Policy Management
EFA	Education for All
FUNDASAB	Fundación para el Apoyo a la Sostenibilidad en Saneamiento Básico
GOVNET	Network on Governance
GPP	Good Practices Paper
GTZ	German Development Agency
IFI	International Financial Institution
JICA	Japan International Cooperation Agency
JV	Joint Venture
LDC	Less developed country
LENCD	Learning Network on Capacity Development
MoF	Minister of Finance
MoU	Memorandum of understanding
MTEF	Medium-term economic framework
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
NORAD	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
OECD-DAC	Organization for Economic Cooperation and Development – Development Assistance Committee
PAHO	Pan American Health Organization
PBA	Program-based Approach
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIU	Project Implementation Units
PRSP	Poverty Reduction Strategy Paper
RBM	Results-Based Management
SIDA	Swedish International Development Agency
SWAp	Sector-Wide Approach
TA	Technical Assistance
UNCDP	United Nations Capital Development Program
UNDP	United Nations Development Program
USAID	US Agency for International Development
WB	World Bank
WSS	Water Supply and Sanitation

## Acknowledgements

This forum, like all LENPA forums, was a joint endeavor involving contributions from a large number of LENPA members and collaborators. We wish to acknowledge the contribution of all those who participated, and to express our appreciation for each of you.

Most visible are those who contributed as authors, presenters, chairs and facilitators in the plenary sessions and in the working groups, whose names are specified in the Agenda and need not be repeated here (Annex 1). However, we would like to acknowledge also those who organized the forum, and those who prepared this synthesis report.

In terms of substance, this forum was organized by a core group of LENPA member organizations, which met regularly by videoconference over a period of several months, under the chairmanship of the European Commission's Gilles Hervio. Participants included the following:

<b>CIDA</b>	Réal Lavergne, Anneli Alba, Scott Walter
<b>DANIDA</b>	Winnie Petersen, Nils Boesen (consultant)
<b>EC</b>	Gilles Hervio (LENPA coordinator), Virginia Manzitti, Nicoleta Merlo, Franco Conzato, Jos Jonkers
<b>France</b>	Virginie Leroy Saudubray, Patrice Tournier, Pascale Dumoulin
<b>GTZ</b>	Dieter Katterman, Claudia Gottmann
<b>Japan</b>	Daniele Testelin, Shikegi Furuta, Hagino Noguchi, Keito Sano, Masayoshi Takehara
<b>USAID</b>	Joan Atherton, Deanna Gordon
<b>World Bank</b>	Chiyo Kanda

In Washington, the meeting was hosted by USAID. Meeting organizers included Deanna Gordon, Joan Atherton, Brian Frantz (Bureau for Policy and Program Coordination), Bob Emrey, Yogesh Rajkotia, and Jamila Squires (Bureau for Global Health), and Stephen Giddings (Bureau for Africa). The USAID PPC IDEAS project with the University of Maryland IRIS Center provided logistical support, under the leadership of Dennis Wood and Maureen Donaghy, and the Development Information Services contract with the Academy for Educational Development, Inc., provided additional assistance.

This report, finally, was prepared by Bob Emrey, Réal Lavergne and Yogesh Rajkotia, with support from numerous note-takers and rapporteurs.

## **Executive Summary**

### **Capacity Development under Program-based Approaches**

This report synthesizes key ideas and conclusions emerging from the Forum on Capacity Development Under Program-Based Approaches (PBAs) sponsored by the Learning Network on Program-Based Approaches (LENPA) in Washington, DC from April 25-27, 2005.<sup>1</sup>

#### **Background**

This was the fourth such LENPA forum. Previous forums were organized in Ottawa (June 2002), Berlin (November 2003), and Tokyo (June 2004). All LENPA forums have dealt with capacity development (CD) to some degree in the past, but LENPA members had identified the topic of CD under PBAs as meriting concentrated attention.

A central premise behind the organization of this forum was that PBAs and CD are intimately linked. Whereas prior approaches to development cooperation have often had the effect of undermining host-country institutional capacities in a number of ways, PBAs are expected to have a number of positive effects, by:

- Strengthening host-country ownership
- Working through – rather than around – local institutional structures
- Shifting attention towards more strategic issues, including policy and institutional reforms, rather than upon the details of project implementation.

Furthermore, PBAs themselves can only succeed to the extent that local institutions have the capacity to deliver. This considerably raises the incentive for all parties to promote CD processes in those institutions.

However, PBAs also raise new challenges regarding how best to combine efforts and how best to catalyse and support change at the program level. These challenges have yet to be fully understood. Furthermore, there is an almost total lack of empirical material on this subject. The forum aimed to address these challenges and begin to fill the empirical gap.

#### **Conceptual framework**

Because PBAs involve coordinated support at the program level, they lend themselves to the sort of systems thinking about capacity that became part of the capacity development paradigm going back to the early 1990s. In the context of the Millennium Development Goals, PBAs serve two purposes:

- They facilitate the scaling up of pro-poor activities such as access to primary education and primary health
- They help to promote improved institutional performance at the systems level.

From a CD perspective, the emphasis under PBAs is thus on institutional performance at the systems level, or more briefly, “systems performance.” The two conceptual presentations in the

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<sup>1</sup> Detailed information on this and other LENPA forums, including all of the papers and presentations, is available on the LENPA extranet site at <http://web.acdi-cida.gc.ca/pbas>. This is a password restricted site, so new users will have to register before they can access the site (follow the links from the home page). Information on the [LENPA network](#) is also available on the site.

forum focused respectively on systems thinking, and on the linkage between capacity and performance.

An advantage of systems thinking, as explained in the presentation by Peter Morgan, is that it encourages us to avoid reductionist thinking about capacity – which is to say, the reduction of capacity merely to its constituent parts. Capacity must, instead, be seen as emerging from the whole of the system, with the whole being either greater or lesser than the sum of its parts. Engagement in efforts to promote enhanced institutional performance thus requires an ability to consider both macro and micro levels of systems capacity, and the interconnections and interrelationships among the parts of a system, as these evolve over time. The case studies reviewed during the forum provided excellent examples of this way of thinking.

The PBA framework also encouraged participants to look more closely at the linkage between capacity and performance. Is “capacity” sufficient to ensure performance? The answer to this question depends on how the expression “capacity” is understood, but in common parlance, capacity is the potential to perform, and translates into performance only if that capacity is effectively harnessed in ways that satisfy stakeholders’ priority needs. A suggestion to emerge from the forum was the need to enrich out conceptual toolbox to make room for such distinctions.

To this effect, it was suggested that capacity understood in the somewhat technical sense of “abilities” (as it is usually defined) should be distinguished from issues of incentives and motivation and issues of governance. From this perspective, an enriched conceptual set to deal with issues of capacity and performance might include not just the conventional elements proposed in the CD paradigm (capacity, capacity development, promotion of capacity development), but also a number of others used by forum participants at different times, including the following:

- *Capacities (in the plural)* – The elements required to perform particular functions and to work together as a human system
- *Performance (or productivity)* – *how well* resources are used to produce results and to further improve performance over time (unit costs, quality and appropriateness, timeliness, learning, etc.)
- *Commitment, Motivation and Accountability* – Conditions for capacity to be mobilized, to translate into performance
- *Good Governance* – Conditions for capacity to be mobilized for relevant purposes.

To summarize how these various elements relate to each other, one could say that capacity – the potential to perform – is an emergent systems property that depends upon the existence of an appropriate mix of capacities. Capacity will result in performance if commitment, motivation and accountability are also present. Add good governance, and there is a greater likelihood of achieving performance around results that matter to stakeholders.

### **The case studies**

Conference participants drew lessons of good practice and experience from several sources, including a review of World Bank experience in building state capacity in Africa, and more specialized efforts at building analytical frameworks for capacity development in public financial management (PFM) and procurement. This was complemented by a number of case studies. A total of 13 case studies were presented in Washington, as follows:

- Africa Forum
- Honduras Chagas Eradication
- South Africa Water and Sanitation
- Nicaragua Education
- Uganda Water
- Ghana Water and Decentralization
- India Health
- Senegal Health
- Tanzania Agriculture
- Bolivia Water
- India Education
- Honduras Education
- Nepal Capacity Development of Local Bodies.

This sample covered all three major geographical regions of the world, and included some representation from a number of sectors, including education, health, water and sanitation, plus the theme of decentralization. Where the sample is weak is in its coverage of Africa, where most of the world's PBAs are located. Although six of the cases covered were from Africa, three of those (Africa Forum, Senegal Health and Tanzania agriculture) were not regular cases of PBAs, but cases of a different variety from which useful lessons could be learned. All of the remainder were in the water and sanitation sector. Although this sample provided valuable insights to forum participants, as documented in the detailed report that follows, care must be taken to not overstate the generalizability of those results in the absence of a larger, more representative, sample.

### **Lessons from Africa**

The main message emerging from the presentation and discussion of the World Bank's experience in building state capacity in Africa was that African governments and their partners should move from a narrow organizational and technocratic approach focused on the construction of a national bureaucratic machinery to a broader perspective that incorporates both the political dynamics and the institutional rules of the game within which demand for performance and oversight mechanisms play a fundamental role, at both national and local levels. This is in line with observations made above that a proper understanding of systems performance requires a broader frame of reference than the concept of capacity alone is capable of providing.

A second major conclusion from this session was that comprehensive reforms have failed more often than not in Africa. Yet partial, piecemeal, approaches have also failed. What was proposed, therefore, was an incremental, but strategic approach, involving a systems perspective, and a long-term sense of direction, combined with an incremental approach to change. The emphasis is thus shifting from models based on best practice and comprehensiveness to more iterative approaches focused on next steps, best fit, and the search for catalytic measures.

The resulting notion of "strategic incrementalism" quickly became part of the group vocabulary among forum participants. That capacity issues need to be managed holistically is well appreciated in the CD literature, which calls for a systems perspective. However, there is an increasing awareness that change in the real world is incremental in nature<sup>2</sup>. The concept of strategic incrementalism provides a bridge between the ideal, which calls for a holistic approach,

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<sup>2</sup> For a review of some of the related CD literature, see Nils Boesen and Ole Therkildsen, "Between Naivety and Cynicism: A Pragmatic Approach to Donor Support for Public-Sector Capacity Development" In *Capacity Development Evaluation*, Step 4 (June 2004), published by Danida, Foreign Ministry, Copenhagen, April 2005. (Accessible at <http://www.um.dk/en/menu/DevelopmentPolicy/Evaluations> and on the CIDA PBA website at: [Between Naivety and Cynicism](#) ).

and the real world, which calls for sequencing of efforts according to emerging opportunities and constraints.

### **Lessons from work on PFM and procurement**

Public Financial Management (PFM) and procurement are particular areas of concern under PBAs, in part because they are intrinsically important areas of institutional development, but also because of fiduciary concerns when donor funds are channelled through country systems. Considerable joint work has been done in these areas, both internationally and at country level. This work constitutes a model of how capacity development efforts could be applied to other systems as well. Some of the features of this model that emerged from the presentations and background documents include the following:

- Emphasis on building up the credibility and leadership of host-partner institutions
- Joint diagnostics, closely involving host-partner institutions
- Adoption of a holistic, but incremental and sequenced approach to reforms
- Awareness of political considerations and the need for external incentives
- Pursuit of early results to motivate further reforms
- Importance of a coordinated approach
- Adoption of a realistic pace of reforms
- Monitoring of results according to carefully selected performance indicators.

### **False starts**

The power of both the CD and PBA paradigms is that they encapsulate some important lessons about how to approach development cooperation. In this respect, they help to avoid what might be called “false starts.” Several examples of false starts were identified by participants, but there is a distinction to be made between those that emerged from participants’ general experience in CD work and those that emerged from the PBA case studies reviewed.

The first category includes, for example:

- Thinking that capacity is something that can be “transferred” from North to South rather than something that partner country institutions must acquire for themselves
- Excessive emphasis on technical assistance (TA) and training as solutions to all capacity problems
- Excessive emphasis on donor-driven diagnostics
- Insufficient attention to context.

However, the false starts emerging from the case studies were mostly of a different type associated with the difficulty of applying the CD paradigm in a systematic way in the PBA context. What emerged from the case studies was an improved understanding of the transition that is taking place from old approaches – which may not have paid very much attention at all to capacity development or which addressed capacity development in a piecemeal way under the project mode – to a new approach, in which CD is a central preoccupation addressed in a relatively systemic way by a community of partners. Rather than speaking of false starts, the cases spoke more eloquently of promising, if imperfect, beginnings.

That the promising beginnings were imperfect is not surprising. The demands of the new approach are immense – requiring a strategic understanding of complex and dynamic systems

from a human, structural, as well as political economic understanding. The cases were useful in helping to identify certain areas of continuing weakness. They include the following:

- CD efforts were still focused on the parts of systems, with inadequate attention to how the parts worked together to produce overall systems performance.
- The predominant approach remains a technocratic one involving insufficient attention to political considerations.
- Donor coordination and harmonization remains insufficient.

### **Current Strategies and Approaches**

As noted above, PBAs open up opportunities for engagement in capacity development that go beyond what would be possible under project-based approaches. The question asked in Washington in this respect was whether the partner community was availing itself of these opportunities. Although it is possible to answer this question in a general sense, to say that the case studies clearly reflected a different way of doing things, the forum did not allow us to present a clear and unambiguous picture of how CD is being pursued under PBAs. However, the case studies provided some valuable insights into emerging practice.

#### *National to local models of capacity development*

The first aspect of this emerging practice appears to be a transition to more complex approach, in which CD efforts are applied to systems including several levels on intervention, from the national to the most decentralized level of service provision. Although in conventional discussions of SWAs and budget support operations, attention to CD issues seems to dwell primarily on centralized government functions such as planning and public financial management, the cases reviewed in this forum did not fit this pattern, as they paid considerable attention to CD at both then national and lower levels. One of the discussion groups referred to this as the “Nation-community” approach.

#### *Diagnostics*

A second aspect that participants were asked to cover was the way that diagnostics were being done. Forum participants indicated that capacity assessments and diagnostics at the “front end” appeared to have been limited. Although diagnostic work was clearly undertaken under PBAs, such work appears to be ongoing, as a function of various decisions to be taken individually or collectively by different PBA partners. This approach to diagnostic work under PBAs seems to reflect the reality of change processes as ongoing and iterative processes with no clear starting point and end point.

It was noted that scale and diversity in large scale PBAs do not allow an ‘omnibus approach’ to be taken. Questions were raised about how to assess CD needs in complex systems, where needs are very diverse. Where various levels of intervention are involved, questions were asked also about how responsibilities for needs assessment should be distributed, in line with the principle of “subsidiarity.”. Evoking the notion of strategic incrementalism, participants emphasized that CD assessments and plans must be particularly attentive to the weakest spots and to the areas where the most progress and impact could be expected. A concern of forum participants was the need to promote host-partners’ capacity for self-assessment.

#### *Demand and supply for capacity development*

A third recurrent theme was the need for attention to both the supply and demand sides of capacity development. The demand side was seen to have two dimensions: on the one hand was the need for mechanisms to ensure that entities responsible for particular functions are able to articulate their CD needs; on the other hand these entities need to feel accountable for improved performance over time, in response to stakeholders demands. The need to promote accountability for performance was one of the most frequently recurring themes in the forum.

### **Roles of External Partners**

One of the contributions of the CD perspective is that it emphasizes endogenous processes and the role of external partners in promoting those processes, rather than particular types of inputs, such as technical assistance or training. From this perspective, the role of external partners can be analyzed from the point of view of its contribution to such processes. The promotion of CD under PBAs involves a significant shift in approach that includes an enhanced role for learning by doing, for policy dialogue and multistakeholder engagement, compared to project-based approaches.

Participants were asked to consider five roles that donors or outside experts could play in promoting capacity development:

- Facilitating access to knowledge, technology, ideas, or new management approaches
- Facilitation of networking, new relationships with outside parties, and consensus building
- Policy dialogue and advocacy including specific policy reforms, promoting a results-based approach, support for accountability to beneficiaries, or encouraging participation & transparency
- Provision of incremental resources that can facilitate change processes
- Providing space for learning by doing.

PBAs were seen to provide space for donors to play all of these roles in an integrated way, at the system level, and examples of all of these roles can be found in the cases studied. For instance, the discussion group focused on the water and sanitation sector spoke of an integrated vision that includes sector policy dialogue, transparent incentives for water utilities and specific measures of support for CD (training, technical support, etc.).

The discussions pointed to a number of more specific roles that donors can play under PBAs, including the following:

- Helping to set the agenda for policy reform
- Keeping attention focused on issues of institutional performance
- Engaging in policy dialogue and exerting pressure for change
- Facilitating and accompanying change processes; enabling access for new actors.

It was argued in the closing session of the forum that the extent of donor pro-activity in promoting CD was not a moral issue but a pragmatic one based on what is likely to work in different circumstances. In some cases, donor involvement might extend to playing an active role in implementing change. In others, it may involve standing back and playing no role whatsoever.

### **Results achieved**

On the subject of results achieved, the discussion in Washington did not focus so much on the achievement of particular capacities or enhanced performance in particular areas, so much as on

changed relationships, approaches and processes. The transition to new, more holistic, joined up approaches under PBAs was considered an important result in its own right, and mention was made, as well, of cross-sector learning from SWAs currently ongoing in different sectors of the same country. Participants also identified increased ownership of sector policy by sector stakeholders, increased attention to budgeting at the sector level, and more effective allocation of sector resources for CD, as results worth mentioning. Several references were made as well to the increased attention or resources being accorded to CD, and to enhanced, or more sustainable CD processes and structures.

Considering the frequent calls that were made for increased attention to accountability issues over the course of discussions, it is interesting to note how often improved accountability structures were evoked as a category of result. Among the examples noted were the following:

- A transition to monitoring focused on outputs and outcomes, not solely on inputs (water and sanitation sector)
- Use of tracking and value for money studies as bases for performance assessment (Uganda Water)
- Performance monitoring and strengthening of vertical accountability, so that entities previously accountable directly to donors are now accountable to the national ministry. (water and sanitation sector)
- Significant improvements in PFM and procurement (Honduras education)
- Adjustments made to the PFM system to align with the decentralization of functions and resources to local governments (water and sanitation sector).

### **Challenges ahead**

Numerous challenges were raised as part of the discussions, including the following:

- Ensuring the CD receives adequate attention and that CD efforts are incorporated in PBA budgets
- Taking the role of non-state actors into account
- Ensuring the integration and complementarity of efforts both horizontally across different areas and vertically at different levels
- Addressing regional/local differences in large PBAs, to ensure that alignment with national programs does not impede adjustment to local realities
- Taking a systems perspective and focusing on systems performance
- Understanding the link between CD narrowly understood, incentives, accountability, and performance
- Dealing with the political complexity of change processes that are context specific
- Demonstrating the link between CD and results
- On the donor side, challenges raised by limited donor capacity to engage in CD programs, limited time horizon, and the lack of incentives for effective engagement
- The special challenge of CD in politically difficult contexts such as fragile states.

### **Principles of effective support to CD under PBAs**

Finally, the discussions produced a number of recommendations about good practice for CD under PBAs, many of which are elaborated in section VI of the main report or taken up in

slightly different terms in the concluding summary presented in section VII. These included the following:

***Make a priority of capacity development***

The need to reinforce PFM and procurement is obvious when budget support is provided, since budget support raises obvious fiduciary concerns. However, the same argument holds for other functions related to the implementation of PBAs. If implementation is being done through local institutions, then the capacity of those institutions to deliver results is of obvious importance. Unfortunately, effectiveness in the implementation of development programs is less likely to come up as an issue of public debate, provided that some progress is evident on pursuit of the MDGs.

The focus of attention on impacts that the MDGs encourage tends to obscure issues of systems performance, because progress along some of the MDGs may occur despite poor institutional performance. Explicit efforts are thus required to get CD on the agenda. Donor guidelines for engaging in PBAs should include discussions of how to engage in the promotion of capacity development. At field level, priority should be accorded to joint diagnoses of capacity and performance issues.

***Unpack capacity development***

Dialogue on CD is more likely to be productive if some important unpacking of the concept is done. For instance, it is important to distinguish:

- CD for improved fiduciary management
- CD for improved service delivery
- CD for systemic reforms (institutional, policy, etc).

Indeed, the types of measures that may be taken to promote enhanced performance are likely to vary considerably from one category to another. Systemic reforms are likely to be the most difficult area for change, but are likely to be fundamental to progress on other fronts. Forum participants were reminded that salaries often eat up 90% of sector budgets. Issues relating to incentives and performance and salary reform are thus fundamental, and should be part of the dialogue on CD.

***Adopt a systemic but strategic perspective***

As the World Bank study on Effective States and Engaged Societies suggests, interventions that are “strategic” and “systemic” do not necessarily have to be comprehensive in scope. Indeed, it may be necessary to avoid overambitious schemes. The ambition and comprehensiveness of capacity development efforts need to be tailored to the absorptive capacity of the local context and the readiness of domestic partners to implement change in different areas. However, even “strategic incrementalism” requires an understanding of systems and existing levels of systems performance, a sense of where the partners would like to be in the future, and an appreciation how to get there, including some ideas about strategic sequencing. Such an approach involves a measure of CD planning, but is necessarily iterative in character, including plenty of room for steps that are opportunistic, un-integrated, non-comprehensive, and perhaps unplanned altogether. Quick wins, if they can be achieved, will help to move the agenda forward.

***Focus on performance***

A strategic approach means that CD initiatives need to be considered from the perspective of their impact on systems performance, not just in terms of specific CD needs. Efforts will be required to define what is meant by systems performance in particular cases, and to measure that performance. Improved systems performance means that unit costs are down, that service quality has improved, that timeliness of services has improved, etc. Indicators of systems performance are needed to complement indicators of impact, because the latter do not distinguish between the effects due to the application of additional resources and the effects of improved performance.

Attention to systems performance means focusing on concrete tasks defined in terms of specific functions, rather than upon imported models and theory of how systems should work. It implies the need to address the full sequence of factors required for improved performance, including skills and capacities, policies, incentives, and good governance. Supply side efforts should be combined with efforts on the demand side, by encouraging mechanisms that give visibility to performance indicators such as unit costs, service quality, and client satisfaction.

### *Use technical assistance judiciously*

Where institutional capacity remains weak, technical assistance (TA) is likely to be required for some time to help fill strategic gaps and help to build up capacities over time. However, TA, especially when it is tied to donor country procurement or provided in kind, has been much criticized as a modality. Pooling of TA, or the creation of special funds for TA should seriously be contemplated in many cases. This might involve creation of a special TA fund to be managed by the recipient organization or by a particular donor or agency retained for that purpose. Donors may also divide up responsibilities for TA by covering different aspects of the reform agenda.

Other suggestions included the following.

- Finance for partner country institutions may be all that is needed in some cases. This allows the recipient to allocate funds according to perceived priorities, and to recruit consultancy services locally or internationally as required.
- Over the long-term, support for tertiary education and training may be a more cost-effective solution than TA.
- In some situations, twinning arrangements between Northern and Southern organizations may also be an effective approach.

### *Pay attention to non-state actors*

Non-state actors (private sector and civil society actors) are important in all sectors, and in some sectors, such as agriculture, private sector producers are the main target group. Promoting or supporting CD among non-state actors is thus fundamental to effective sector transformation and growth. This can take several forms:

- Promoting the establishment of an enabling environment in which the private sector and civil society organizations can thrive.
- Building domestic capacity to support non-state initiatives through development funds, micro-credit programs or similar initiatives
- Helping non-state actors to build up their own capacities in areas such as engagement in policy dialogue, monitoring and evaluation, or securing access to government procurement.
- Engaging non-state actors through corporate social responsibility or other mechanisms to contribute in a sustainable way to development efforts.

### *Don't walk away from fragile states*

Strategies on how to promote or support capacity development efforts need to be adapted to contextual realities. Participants identified four sorts of situations that could condition donor approaches to working with governments depending upon the capacity and commitment of those governments to engage in development reforms: low capacity/low commitment; low/high; high/low and high/high. Under PBAs, the situation is often one of low capacity but high commitment and most of the lessons identified in this report can be said to apply.

The situation changes when lack of commitment is manifest. Where commitment is weak, donors will have to use a flexible, and political economic approach in order to identify windows of strategic opportunity. This is likely to involve working with groups that are perceived as legitimate, and attempting to develop a critical mass of momentum for change over time. A variety of potential stakeholders may be involved, including the Diaspora, and the private sector. Efforts should be made to help establish checks and balances in society and to promote multi-stakeholder dialogue. This sort of approach requires patience and persistence, but may produce significant results over the long-term.

### **Conclusions**

To conclude, the Washington forum allowed LENPA members to advance both their conceptual understanding of the CD/PBA challenge, and their knowledge of how CD is actually being promoted under PBAs. Much remains to be done. One of the reasons for organizing the fourth LENPA forum on this topic was because of the absolute dearth of empirical information on capacity development under PBAs. The case studies produced for the Washington forum have helped to fill that gap, but they are only a start. Further work is clearly needed, both in deepening our understanding and knowledge and in putting that understanding into practice. The fact that indicator 4 of the Paris Declaration bears directly on the coordination of capacity development efforts should hopefully provide some impetus for more vigorous and coordinated efforts to promote CD processes under PBAs.

# Capacity Development under Program-based Approaches

## LENPA Forum, Washington, DC, April 25-27, 2005

### I. Introduction

This was the fourth forum of the [Learning Network on Program Based Approaches \(LENPA\)](#). Previous forums were organized in Ottawa (June 2002), Berlin (November 2003), and Tokyo (June 2004). All LENPA forums have dealt with capacity development (CD) to some degree in the past, but LENPA members had identified CD under Program-Based Approaches (PBAs) as meriting concentrated attention. A [Concept Paper](#) was prepared, and network members were mobilized to produce a number of overview presentations and case studies to shed light on this complex topic.

The agenda (see Annex 1) included a number of plenary presentations, working groups focused on discussions of case studies, and an open space session that allowed a number of issues to be pursued in greater depth. This report roughly follows the agenda. However, it departs from the agenda in some ways in order to provide a stronger “story line” of results emerging from the forum.

Readers of this report will find a summary of all of the plenary sessions in sections I, II, III and VII, while sections IV, V and VI bring together [material from the working group and open space sessions](#). Section IV assembles highlights from each of the case studies. It is followed by a section that draws together the key points emerging from the working groups titled “From Diagnosis to Results - Lessons from the Case Studies and Discussions” (Section V). This is followed in similar fashion by a section titled “Principles of Effective Support for CD under PBAs that brings together material from the various open space sessions (section VI). Section VII summarizes the results of the last plenary session.

A central premise behind the organization of this forum was that PBAs and CD are intimately linked. Whereas prior approaches to development cooperation have often had the effect of undermining host-country institutional capacities in a number of ways, PBAs are expected to have a number of positive effects, by:

- Strengthening host-country ownership
- Working through – rather than around – local institutional structures
- Shifting attention towards more strategic issues, including policy and institutional reforms, rather than upon the details of project implementation.

PBAs are thus expected to provide new opportunities for institutional strengthening in host-partner countries. Furthermore, PBAs themselves can only succeed to the extent that local institutions have the capacity to deliver. This considerably raises the incentive for all parties to promote CD processes in those institutions.

However, PBAs also raise new challenges regarding how best to combine efforts and how best to catalyse and support change at the program level. These challenges have yet to be fully understood. Furthermore, there is an almost total lack of empirical material on this subject. The forum aimed to address these challenges and begin to fill the empirical gap.

## ***Introductory Comments***

Joan Atherton of USAID provided introductory comments and introduced the opening speaker, Frederick Scheck, Deputy Administrator of USAID. Mr. Scheck welcomed the participants on behalf of USAID and the other Washington area agencies participating in the LENPA Forum, and discussed the importance of program-based approaches.

He noted that USAID Administrator Andrew Natsios had participated in the March 2005 High Level Forum on Aid Effectiveness and had strongly endorsed the Paris Declaration that emerged from that Forum. He also discussed the mutual commitments embodied in the Paris Declaration and how they are in line with USAID's nine principles of development and reconstruction. He said that copies of the Paris Declaration had been widely circulated to all of USAID's field posts and Washington offices.

Also very much in line with USAID policy is the Paris Declaration's emphasis on the importance of using country systems and strengthening local capacity and host country institutions. He mentioned that USAID is committed to significantly increasing the use of local mechanisms, funding host country experts, NGOs and firms in providing technical assistance and programming funds through the host government, where appropriate policies and accountability exist. USAID sees such measures as critical to sustainable development.

## ***From Berlin to Washington Via Tokyo***

Hagino Noguchi of JICA helped bring LENPA members up to date on previous discussions in Berlin and Tokyo in a presentation titled [From Berlin and Tokyo to Washington](#), focusing on the conference theme of CD under Program-Based Approaches (PBAs).

The Berlin forum was organized around three themes:

- Aligning the Roles of Central and Line Ministries and Donors
- PBAs and Development at Sub-national Levels
- PBAs And the Role of Non-state Actors.

Key topics covered under these various headings included:

- The importance of public financial management
- Balancing support to include non-state actors
- The role of the private sector
- Overcoming 'recentralizing' tendencies
- The role of technical assistance.

Two emerging themes for future development emerged from the Berlin forum as candidates for further discussion: capacity development in the context of PBAs and the role of the private sector / non-state actors.

One year later, the Tokyo forum was held in which the emergent themes from the Berlin meeting were built upon. This forum included strong participation from partner countries. The Tokyo Forum addressed the following three themes:

- Institutional Capacity
- Issues of Scale: Large PBAs in Large Countries
- PBAs and Economic Growth.

Among the lessons learned from the discussions in the forum were that:

- Commitment and political will from the government are critical
- Donor approaches must be participatory from the beginning, involving close dialogue among stakeholders.
- Donors must play a catalytic role in strengthening institutions.

Some of the challenges identified in the Tokyo forum going forward included the need to deal with weak administrative capacity in partner countries, the low involvement of non-state actors in PBAs, and insufficiently effective stakeholder coordination.

### ***Links to the Learning Network on Capacity Development***

Thomas Theisohn briefed participants on the work of a network similar to LENPA called LenCD (Learning Network on Capacity Development), in a presentation titled “LENCD: What’s New?” He referred participants to two papers for additional background: 1) [“Learning Network on Capacity Development: LenCD”](#) and 2) [“Living Up to the Capacity Development Challenge: Lessons and Good Practice.”](#)

He explained that LenCD exists to promote learning about capacity development. It is an informal network including analysts from bilateral and multilateral, governmental and nongovernmental agencies and organizations engaged in development cooperation (primarily OECD-DAC members). LenCD builds on the major efforts in recent years to improve our knowledge base on CD. This has included the organization of international symposia in Manila and Tokyo in 2003 and 2004 respectively. LenCD was established at a meeting of the cosponsors of those events in June 2004 in Berlin to provide greater form and visibility to capacity development, both as part of the DAC Network on Governance (GovNet) and beyond.

LenCD’s objectives are to:

- Facilitate the sharing of lessons about good and bad practice for supporting capacity development in developing countries;
- Promote the exchange of experience and cooperation in mainstreaming capacity development concerns into agency operations;
- Foster country level dialogue and collaboration around the pursuit of lasting capacity outcomes;
- Promote data collection, monitoring and other empirical work on capacity development;
- Be the main partner to advance the GOVNET’s capacity development agenda;
- Support the DAC in mainstreaming a capacity development perspective throughout its work.

LENCD has three fundamental commitments:

- To make capacity development a central objective of development cooperation and an explicit objective in partner country development strategies
- To agree on an approach to capacity development that starts with partner country objectives and strategies and established rules of engagement for mutual accountability
- To establish more objective ways of monitoring both development results and the dynamics of development partnerships.

LENCD’s main activity to date has been to develop a paper on capacity development in cooperation with the DAC. The resulting DAC Good Practice Paper on CD (GPP) establishes

some common ground for DAC members in terms of understanding CD and the primary ingredients of a successful CD approach. It offers a common basis for country-level dialogue and practice and provides a framework for CD work in specific areas such as public financial management, procurement, etc. The GPP emphasizes that each country requires support tailored to its situation, and draws attention to the particular importance of CD in fragile states. It calls for a flexible approach capable of responding to quickly evolving conditions.

## **II. Approaches to CD Under PBAs**

### ***A Systems Approach to Capacity Development***

A Systems Approach to Capacity Development Peter Morgan and Heather Baser presented a conceptual piece on the importance of systems thinking when working on capacity development. Peter argued that current analytical approaches are reductionist in nature. However systems can be both greater and less than the sum of its parts, and cannot be understood from a strictly reductionist perspective. Reductionist approaches do have a role to play however, in understanding what makes up capacity and capacity development.

Political economic thinking provides yet another way to approach complex reality, with its own strengths and limitations. While contributing to understanding thanks to its emphasis on power dynamics, political economy cannot explain many aspects of micro-organizational and inter-organizational behavior.

Peter explained that a human system takes its identity and form from the ongoing interaction of its parts. Human systems are dynamic, and need to be understood in terms of their relationship with other systems. Emphasis is placed on understanding the whole system, not just its parts.

Capacity can be understood as an “emergent property” of a system, and cannot be understood in a reductionist way. To be successful, capacity building efforts need to consider both macro and micro levels of system capacity, and the interconnections and interrelationships among the parts of a system. Systems thinking involves thinking creatively about chaos, disorder, and uncertainty.

Peter posed a number of questions to stimulate further thinking:

- If capacity comes out of a holistic, mysterious process, is it manageable?
- How can we best combine current analytical techniques and systems thinking?
- Can we combine systems thinking with our current emphasis on planning, control and predictability?
- Do we have an analytical framework that could help us to apply systems thinking in an effective way?

### ***Promoting CD Under PBAs – Elements of a Conceptual Framework***

Réal Lavergne presented the elements of a conceptual framework for thinking about capacity development under PBAs, based largely on the [LENPA Concept Paper](#) prepared in anticipation of the forum.

He distinguished the prevailing CD paradigm or conceptual framework from education or human development, in terms of the focus of attention, which is mainly on the performance of organizations and systems to satisfy particular functions. The CD paradigm takes a systems perspective and shows how capacity at different levels and of different types relate to each other,

and emphasizes CD as a process of change rather than as something that outsiders can do (as implied in the expression Capacity Building).

Réal proposed a conceptual toolbox consisting of “three plus two” elements (the three standard ones, and two others), as follows:

- 1) *Capacity*: the ability of people, organizations, systems of organizations and social systems as a whole to perform tasks and produce outputs, define and solve problems, make informed choices, order their priorities and plan their futures
- 2) *Capacity development (CD)*: the process by which people, organizations and social systems create and strengthen their capacity over time
- 3) *Promotion of CD*: what outside partners – domestic or foreign – can do to support, facilitate or catalyze the CD process
- 4) *Commitment, Motivation and Accountability*: Conditions for capacity to be mobilized, to translate into performance
- 5) *Performance*: how well resources are used to produce results and to further improve resources over time (unit costs, quality and appropriateness, timeliness...)

Although this is only one way of enriching the standard conceptual set, it highlights the fact that increased capacity does not necessarily lead to improved performance if the ingredients to set that capacity in motion (commitment, motivation and accountability) are missing. Under PBAs, it is systems performance, not just systems capacity, that concerns us. A further distinction of some importance that can be made is that between a functionalist and a social perspective of capacity and performance. The functionalist perspective essentially asks “Capacity to do what?”. This perspective suggests that capacity leads to performance if the various components – capacities - are in place. The social perspective asks “What is needed for people to work together productively?” It considers individual capacities (skills, knowledge, experience), structures for working together (organizational), certain rules of the game (institutional), and social relationships (trust and reciprocity) (social). It also includes political relations – interests, power structures, relations of loyalty and authority, formal and informal. A proper understanding of systems capacity and performance requires understanding of both functionalist and social perspectives; it requires an understanding that “social” also means “political;” and a comprehension of the role of incentives and accountability structures for capacity to manifest itself in the form of performance.

Turning to the role that outside partners can play in promoting capacity development, Réal provided a taxonomy of different approaches as follows:

- Providing space for learning by doing
- Provision of incremental resources for facilitating change
- Facilitating access to knowledge, technology, ideas, new management approaches (training, TA)
- Policy dialogue and advocacy (including specific policy reforms, promoting RBM, support for accountability to beneficiaries, encouraging participation & transparency)
- Facilitation of networking, new relationships with outside parties, consensus building.

He noted that program-based approaches provided an opportunity to pursue all of these roles, and that properly executed, PBAs had the potential to be a powerful force for change. However,

he pointed to potential tension between actively promoting capacity development and simple models of local ownership, because PBAs are actually more intrusive in some ways than project aid. However, their great strength is that they make use of local systems and emphasize capacity development of those systems rather than bypassing them. Compared to projects, PBAs place greater emphasis on learning-by-doing, access to incremental resources, and policy dialogue. He advocated a more strategic, holistic approach to supporting and catalyzing change that would include greater attention to governance, decentralization and participation, the state-civil society interface and private sector development

Réal pointed to a number of “false starts” that emerge from the CD literature:

- The too-simple identification of CD with human resource development (training)
- Thinking of capacity as something that can be transferred (technology transfer, knowledge transfer), rather than developed
- Taking an overly technical perspective, focusing principally on the acquisition of knowledge and technology
- Taking a supply-side perspective rather than one focused on an understanding of local systems and their needs (tied aid, focus on technical assistance or training, limited mandates)
- Approaching CD as an afterthought, or a solution to be applied on an ad hoc basis
- Taking a static perspective focused on helping to raise the level of capacity from one level to another rather than a dynamic perspective focused on accelerating the rate of growth of capacity (CD).

The purpose of this presentation was to help participants to share a common conceptual framework, and to propose a set of shared questions around which discussions could be structured. These questions are addressed below in section V of this report. They are as follows:

- False starts – which ones apply and which of these might be handicapping efforts to promote CD under PBAs?
- Diagnosis – how are CD strategies being developed and coordinated? How is local ownership being respected, promoted, and expanded?
- Roles – How are outside partner roles being played? What challenges and lessons emerge from existing experience?
- Results – What sorts of results are emerging from efforts to promote CD?
- Major challenged – What major challenges can be identified at this time?

### **III. Lessons from Africa and from current efforts in PFM and Procurement**

#### ***Building State Capacity in Africa***

Brian Levy presented findings from his 2004 book, [\*Building State Capacity in Africa: New Approaches, Emerging Lessons\*](#). His presentation, titled “[Effective States and Engaged Societies: Capacity Development For Growth, Service Delivery, Empowerment, and Security in Africa](#),” contained examples both of successful and less successful efforts of public sector reform in Africa.

He began by emphasizing the new impetus for state capacity building in Africa in the World Bank, which he attributed to four factors:

- A shift in development strategy from emphasis on policies and economic stabilization to emphasis on institutions and “second generation” reforms
- Increased attention to democratic governance, including opportunities to demand improved institutional performance, political oversight mechanisms and governance at local and community levels
- Explicit recognition of corruption as an issue, since 1996
- The shift of attention to national systems under the PRSP process.

From this perspective, he made the link between capacity and state effectiveness using the equation, stabilization + democracy + capacity  $\Rightarrow$  performance. He argued that building state capacity should be the number one development priority in Africa.

He characterized the emerging approach to building state capacity as one in which African governments and their partners are moving from a narrow organizational and technocratic approach focused on the construction of a national bureaucratic machinery to a broader perspective that incorporates both the political dynamics and the institutional rules of the game within which demand for performance and oversight mechanisms play a fundamental role, at both national and local levels. In the design of interventions, he saw the emphasis shifting from models based on best practice and comprehensiveness to more iterative approaches focused on next steps, best fit, and the search for catalytic measures.

Based on experience to date, he suggested that comprehensive reforms often fail. He reviewed the results of research on 18 cases of relatively ambitious reform programs in various African countries (seven comprehensive reforms, seven pay policy reforms and four PRSP-style budget making initiatives). This research found the reforms to have been ineffective in 11 cases, effective in five cases, and partially effective in two cases. Five of the seven effective or partially effective reforms were in Tanzania and Uganda. The others two were in Cape Verde and South Africa. He said that comprehensive reforms can succeed when there is sufficient political leadership, a political mandate for action, and a certain baseline of bureaucratic capability, whereas the more common reality is that of a patrimonial and dysfunctional political equilibrium. In most places, most of the time, comprehensive reforms will fail.

This situation calls for greater attention to the strengthening of accountability mechanisms outward (government to the population), horizontally (through checks and balances), and downward (by strengthening local processes). It calls also for a more catalytic, and usually less comprehensive, approach, capable of delivering quick wins and of providing momentum for further changes. He called this approach *strategic incrementalism*.

The notion of “strategic incrementalism” much impressed the participants of the Washington forum, and the expression became part of the group vocabulary. That capacity issues need to be managed holistically is well appreciated in the CD literature, which calls for a systems perspective. However, there is an increasing awareness that change in the real world is incremental in nature.<sup>3</sup> The concept of strategic incrementalism provides a bridge between the

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<sup>3</sup> For a review of some of the related CD literature, see Nils Boesen and Ole Therkildsen, “Between Naivety and Cynicism: A Pragmatic Approach to Donor Support for Public-Sector Capacity Development” In *Capacity Development Evaluation*, Step 4 (June 2004), published by Danida, Foreign Ministry, Copenhagen, April 2005. (Accessible at <http://www.um.dk/en/menu/DevelopmentPolicy/Evaluations> and on the CIDA PBA website at: [Between Naivety and Cynicism](#)).

ideal, which calls for a holistic approach, and the real world, which calls for sequencing of efforts according to emerging opportunities and constraints.

### ***Capacity Development in Public Financial Management – Good Practices***

Matthias Witt of GTZ and Bernard Myers, from the PEFA initiative, presented on “[Capacity Development in Public Financial Management: Good Practices](#).” They referred participants to the DAC good practice paper titled “[CD in Public Financial Management: Harmonizing Donor Practices for Effective Aid Delivery, Vol. 2: Budget Support, Sector Wide Approaches, and Capacity Development in Public Financial Management](#),” and alluded to the ongoing work of the DAC’s Joint Venture on Public Financial Management which aims to guide donor efforts in this area. This presentation provided an example of a framework for capacity development in a specific type of system – that of public financial management (PFM) – considered fundamental is country financial systems are to be utilized under PBAs.

Matthias organized his presentation around four CD principles, as applied to public financial management. He discussed some considerations for the application of each one, and provided case study examples of good practice. The following covers each of the four principles in turn:

#### ***Foster country leadership and ownership***

In order to facilitate country leadership and ownership, sustainable budget reforms need credible institutions, the construction of which requires a long-term view and a common language. Since budget support implies changes in power structures, donors should provide external incentives for reform, while stepping back to create space for government to lead. Leadership in country should reside in the Ministry of Finance, but interest needs to be built up also in the line ministries.

#### ***Capacity development design and sequencing should fit specific country circumstances***

Adaptation to the local context is fundamental because PFM weaknesses may arise under different institutional settings and on different levels. Donors should therefore be responsive to governments' most pressing needs, support governments to set clear objectives and advance incrementally, and focus on PFM outcomes at the system level. Simple objectives, based on practical experience in country, should be established for each of a country’s PFM subsystems.

#### ***A holistic view should be taken into account in program design and implementation***

PFM reform will require efforts at the institutional, organizational, and individual levels, and a holistic view is thus required when designing and implementing PFM reform programs. Since Public Financial Management affects all parts of government, reforms may create institutional resistance. Careful attention to the distribution of roles and careful balancing of local and international expertise in implementation may help to reduce the risk of hijacking by powerful departments.

#### ***Donor support should be provided in a coherent, coordinated, and programmatic manner***

Success in promoting PFM reforms will require that donors offer co-coordinated programmatic support, compared to current approaches, which are often fragmented. This will involve the use of joint diagnostics, maintenance of a team spirit, flexibility in the timing of interventions and

the adoption of a medium term perspective characterized by realistic expectations with regard to short-term achievements.

### ***Strengthening Procurement Capacities – DAC Good Practice Paper (GPP)***

Micheal Lawrance, CIDA, spoke to the recent DAC good practice paper titled “[CD in Public Financial Management: Harmonizing Donor Practices for Effective Aid Delivery, Vol. 3: Strengthening Procurement Capacities in Developing Countries](#),” to the ongoing work of the DAC’s Joint Venture on Procurement, and to the joint DAC/WB Roundtable on Strengthening Procurement Capacities of Developing Countries that was set up in Jan. 2003 as the only forum of procurement specialists from multilateral and bilateral donors and from partner countries. The Roundtable was set up to address four challenges:

- Clarification of linkages and sequencing between procurement and public financial management reforms
- The need for a more strategic, holistic approach to capacity development
- Agreement on the requirements for a good public procurement system
- The establishment of an appropriate monitoring and evaluation framework.

“Public procurement” is how public funds are spent – e.g. how budgets get translated into the construction of schools and health clinics and the acquisition of school textbooks. Experience has shown that efforts to improve procurement outcomes are more likely to succeed when change programs are designed specifically to address both the supply and demand sides, i.e. both the implementation of more consistent and transparent procedures, and reinforcement of demand for improved outcomes in terms of delivery of services and infrastructure. Integrating procurement reforms into broader public sector reforms ensures that procurement reforms are aligned and properly sequenced with other changes across the public sector (e.g. with PFM reforms), including those that help to reinforce demands for improved services and infrastructure.

Experience indicates that ownership is best assured when there is clear commitment by political leaders to own and lead procurement reforms. However, host-country leadership may result in differences of perspective in balancing fiduciary concerns by donors and developmental priorities of partners. Policy dialogue may be required to address such differences.

Micheal offered the following programming guidelines for investments in procurement reforms:

- The answer to the question of “who to involve” should be guided by the way the procurement system is structured. For instance, there may be a particular need to focus on regions and municipalities in decentralized systems.
- Given the importance of the enabling environment to the success of procurement reforms, programming should include the full range of institutions and organizations.
- Plans should be flexible and focused on realistic objectives using real performance indicators.
- Programming should have an institutional base capable of ensuring sustainability.
- Procurement reform should be long term without unrealistic deadlines, and should be sequenced with other ongoing reforms – e.g. PFM.
- It should try to be cost effective (e.g. piloting new approaches first, prioritizing high spending agencies).

- It is also important for the government to accurately monitor progress by tracking meaningful performance indicators that are linked to wider government reforms.
- Finally, the parties should seek to share and celebrate early successes, which are often more meaningful to stakeholders than reports and communication strategies.

Inherently, the procurement system is an “organism” in which organizations at various levels and their actors interact and are linked with others in the system and in the enabling environment. Power relationships between actors at each level need to be taken into account e.g. Ministers and their Deputy Ministers, journalists and judges. Organizations respond differently to different techniques and messages. Incentives for improved procurement outcomes thus have to be linked to commitments and leadership within these organizations (e.g. for line ministries, budgets or spending delegations could increase with improved performance).

It is important to involve as many of the key stakeholders as possible in the process, from the assessment phase through the implementation phase. For instance, the business community should be made aware of proposed reforms and should have the opportunity to comment on emerging policies and regulations. They should also be involved in developing and commenting on complaint and dispute mechanisms, and in discussions of how to increase the business community’s ability to compete in the open market. NGOs, associations, and the media should likewise be involved and supported in commenting and discussing policies and regulations, as they have an important role to play as a bridge between politicians and suppliers and the end-users of government services.

## **IV. Highlights from Case Studies**

### ***Africa Forum***

The [Africa Forum](#) provides an interesting example of how an international networking mechanism can be used to support capacity development under PBAs through sharing of experience. The Africa Forum is a platform of learning and exchange for decision makers and implementers of PBAs, focused on agriculture and rural development. Participants come from the government, the private sector, civil society and donors, and are predominantly from sub-Saharan Africa.

The Forum has been in operation since 1997, and has held more or less annual forums since then. These forums are hosted by a partner African country and funded by GTZ in association with other donors, on an ad hoc basis. Each forum attracts between 70 and 100 people, with a growing nucleus of ‘core’ participants. Since 1997, forums have brought together over 600 people from over 20 African countries.

The Forum is not a donor platform, but a practitioners’ forum. Underpinning this formula is the realisation that whereas donors have many occasions to compare notes across countries, opportunities for developing partners to do the same are few. In addition, the Forum fosters a North-South flow of information whereby implementers in Africa are updated on PBA developments internationally. This helps to reinforce the ability of African participants to act as more equal partners in PBA negotiating processes. Over the years, results from PBA discussions elsewhere have reflected themselves in the content of the discussions, which emphasized design issues in the early years, but are increasingly focused on implementation issues.

## ***Honduras Chagas Eradication***

The case study titled “[Capacity Development via Program-Based Approaches: Chagas Disease Control in Honduras](#)” provided an example of a PBA with some unusual features. It is novel first of all in that it is a “vertical” program, rather than a sectoral one. It addresses a single disease, caused by a type of beetle (Triatomines, or kissing bug) that invades people’s homes. As such, it is particularly susceptible to concerted action aimed at eliminating the vector that carries the disease. The initiative operates in the context of a region-wide initiative in Central America. This PBA also involved an interesting mix of partners, including CIDA and JICA as bilateral donors, but also the Pan American Health Organization (PAHO) and the international NGO World Vision, each operating according to its comparative advantage. PAHO provided leadership in creating a program out of previous experience with Chagas in Latin America.

Presenters described Chagas eradication as a “quick win” for the health sector in Nicaragua, that could be organized in PBA mode along project lines, in support of the country’s National Strategic Plan on Chagas Disease Control, 2003-2007. Strong political commitment and support was secured after initial results were seen. The success of the initiative has raised interest in extending the PBA experience to other areas of the health sector. This PBA was also described as having developed “organically” while conscious efforts to establish SWApS in other sectors (i.e. education) have been less successful.

This PBA has made considerable and systematic efforts in the area of capacity development. Such efforts included initial identification of CD needs of national stakeholders across a wide range of areas, including:

- Strategic planning
- Technical dimensions
- Program planning
- Control planning, execution, monitoring and evaluation
- Information management
- Financial management
- Community participation

Donor support was provided in all these areas, and involved multi-layer CD targeting at all administrative levels, from the central government level down to the community level. Achievements include the establishment of technical norms for Chagas disease control, the standardization of planning, monitoring and evaluation methods, skills acquisition, and community participation in vector control activities.

Stakeholders harmonized their approaches to CD to cover the CD needs of different administrative levels. One difficulty was reaching the communities effectively. This was solved by working with NGOs that had good local connections

## ***South Africa Water and Sanitation***

The case study of “[Capacity Building in the Water Services Sector Support Programme \(Masibambane\) In South Africa](#)” describes capacity building under a multistakeholder water services initiative in South Africa. Results included the scaling up of water supply and sanitation services and the provision of hygiene education for three million people, while strengthening governance and creating decentralized structures of producer agencies.

*Masibambane* means “Let’s work together.”. Funding for the effort came from the Government of South Africa (82%), from donor-funded budget support (EC, the Netherlands, and DCI-Flemish), and in the form of technical cooperation provided by donor projects (DfiD, and France). An institutional development process led to transfer of 500 water schemes to Water Service Authorities, provided for the development of the South African Local Government Association, and established information networks and skills development and training in the local government and water sectors.

To address sustainability and create local support, NGOs were involved throughout, focusing especially on advocacy for local government support and capacity building. This massive endeavor benefited from active support at national, provincial, and local levels. Although capacity building was sought throughout the PBA, it proved difficult to find and protect funding for these elements and to institutionalize them.

### ***Nicaragua Education***

The case study titled “[Education Sector Policy Support Programme in Nicaragua](#) (PAPSE)” addresses sector-wide educational needs of a very large school age population of 2.2 million school age children (out of 5.1 million inhabitants) in an effort to reach the education MDGs. In 2002 and 2003, prior to PAPSE, the Nicaragua Ministry of Education, Culture, and Sports and donor partners developed a National Education Strategy and Education Sector Policy, working with the World Bank, Inter-American Development Bank, European Commission, Finland, Spain, and Luxembourg.

In 2004, several donors, including the EC, World Bank, Denmark, and Canada, developed PAPSE as an education SWAp to improve ownership, alignment, and harmonization of efforts in providing for the needs of the sector. PAPSE covers four program activities:

- Decentralization of the sector
- Reform of secondary education
- Support to teachers
- Support to education in the Atlantic coast area.

In its first year of operation, PAPSE received budget support from the EC, WB, Denmark, and Canada. Funding consists of a fixed annual tranche plus variable tranches that are set annually after a joint review with the host government of performance on educational indicators.

Indicators for the variable tranche include enrollment and drop-out rates, and an indicator of actual allocations and expenditures at the decentralized level. Capacity development has been a central focus of PAPSE activities, as the line ministries adjust to their roles in management of budget support financing to the sector.

### ***Uganda Water***

The presentation on “[Capacity Development in the Context of Water and Sanitation Sector Reform in Uganda](#),” spoke about a profound reform of the water sector triggered by the World Bank with support from the Minister of Finance. Activities began in 1997 with four far-reaching donor-assisted sector reform studies covering urban water, rural water, water for production, and overall water resource management. Water sector strategies and investment plans grew out of these initial studies. The water reform program is a comprehensive effort to address rural and water supply and sanitation, as well as water resource management at central, district, and

community levels, and complements a public sector decentralization initiative initiated at about the same time. The reform aims at achieving MDG targets and beyond.

To address problems experienced with project based financing in various sectors, the GOU developed a strategy to shift from project driven development to comprehensive sector-wide approaches in health, education, law and order, and water and sanitation. The government also expressed its preference for donor support to be provided in order of priority as:

- General budget support
- Budget support earmarked to the poverty action fund
- Sector budget support
- Project aid.

Different PBA financing arrangements are being used for different parts of the sector:

- Rural water funds are now provided as budget support by four donors, and channelled directly to districts in grant form.
- Four donors pool funds together under a Joint Partnership Fund to implement four central components, of which three are for sector capacity development.
- At present, most funds for urban water are project based, following guidelines from the sector strategy.

Overall performance of the reforms is monitored using ten “golden indicators” for the sector. Results for rural water supply in the period 1999 to 2004 showed an 8.6% increase in water access. However, over 30% of rural water systems are non-functional and water handling and storage often are inadequate and unhygienic. This points to challenges in building sustainable maintenance systems and improved user education. For urban water supply, the 83 designated urban centers now stand at 65% water coverage, but only 12 towns of the 83 have sewerage systems. The government is committed to reach the Millennium Development Goal to halve the proportion of people without access to safe water and sanitation facilities by the year 2015.

Capacity development is a prominent feature of the government’s approach to reforms in the sector, intertwined as they are with the decentralization initiative. There continues to be a thoughtful debate among host country and donor participants on whether to build capacity before decentralizing, or to decentralize first and follow with building capacity.

### ***Ghana Water and Decentralization***

The presentation on “[Capacity Development Support to Decentralization and the Water Sector in Ghana](#)” reported upon the evaluation of a multi-donor effort in capacity development covering over ten years of activity. This evaluation used a novel methodology to assess outputs and the effectiveness of the overall effort. The evaluation focused primarily on Danida support to the water sector, starting in 1993, and to their ongoing support to decentralization of the Government of Ghana. Water sector capacity development outputs were found to be a mixture of progress in some agencies and lack of progress in others.

Decentralization capacity development produced some positive outputs in several areas. Results of the evaluation suggested that it was easier to trace the effectiveness of capacity development in a hard sector such as water and much more difficult in areas such as decentralization with less well-defined outputs.

A thoughtful companion paper on PBAs from Ghana presents lessons on multi-donor budget support and the effects of budget support on capacity development in government. The review pointed out the relative success these PBAs have had in strengthening elements of public financial management (PFM), among others. Under the budget support arrangement, the Ministry of Finance and Economic Planning and other parts of government were found also to have grown in capacity to plan and coordinate budgets, cross-cutting reforms, and sector policies. Ministries such as health and education, which now have several years' experience under SWAps, have gained capacity in planning, human resource and financial management, and are providing leadership in managing strategic plans and in preparation of strong budget submissions. In pilot tests, donors' disbursements are being triggered by demonstrated outcomes in health and education, rather than just listing completion of planned activities and outputs.

The review highlighted the particularly complicated dilemma posed by the need to augment budget support funding for capacity development with other forms of support. On the one hand, there is now a commitment to expanding the use of budget support in other sectors. On the other hand, there remains also a sizeable stream of project activities and also numerous requests are made to donors outside the PBAs for targeted donor support for technical assistance that can expand service coverage and speed up reforms.

### ***India Health***

The India health case, titled "[Structuring capacity development within sector-wide approaches](#)," discusses an extensive program of health sector reform operating at the national level and in the fifteen poorest states, covering 80% of the population. Additional activities also are ongoing in the state of Kerala and the NE states. This PBA is structured within a Sector Investment Program (SIP) concentrating on primary health care, which was initiated in 1998, with funding from the EU and other donors. An innovative, structured approach to capacity building, the "Pyramid of Effective Investment," was developed to guide states' plans and implementation process. An SIP website was used to expand the network of participants and make available Indian good practice and innovations in health reform and capacity development.

Under the SIP, the intent is to help states avoid using only short-sighted training solutions to confront deeper policy and capacity problems. Every state has developed different milestones according to their capacity and situation (e.g., restructuring of the state health organization). The achievement of the milestones has a predetermined financial value; however, all states are guaranteed a certain budget. The weakest states have had most difficulties, and all states have not moved at the same pace. The SIP supports each state to achieve the milestones and to set realistic targets. Poor states often also have weak governance institutions, but political will has sometimes outweighed the lack of capacity to reform. There were no SIP-wide blueprint indicators; all indicators were developed locally. For each state participating in the SIP, a Memorandum of Understanding (MoU) fosters accountability and ownership to drive their reform strategy forward in the health sector.

### ***Senegal Health***

The case study titled "[Senegal: Health, Poverty Reduction and Economic Development](#)," provides a broad-reaching analysis of challenges to effectiveness in the health sector since 1998. During this period, Senegal had 25 major development partners in the health sector, including development banks, international technical agencies, bilateral donors, and health sector trust

funds such as GAVI. In comparison to similar countries such as Ethiopia, Ghana, and Kenya, Senegal has a better than average outlook in HIV/AIDS prevalence but faces huge challenges in social sector development and in confronting barriers to access to needed health services for the poor.

In this case study, capacity development for the health sector is creatively modeled using quantitative indicators to trace whether and how capacity grew along with sector investments, as reforms were implemented and revised. This thought-provoking study attempts to examine a country's policymaking and management capacity under various forms of support and to equate those changes in investment patterns to the productivity of sector investments and key sector indicators such as burden of disease. While recognizing the weakness of currently available indicators and data for the key variables, the analysis provides many insights about sector capacity development and raises for discussion many serious and complicated issues. Questions discussed in the case study include:

- Did deficits in capacity impede different health programs from achieving targets?
- Did failures to raise capacity in fiscal management, public expenditure management, and sector planning and budgeting while attempting to scale-up basic health services affect the long-term sustainability of institutions whose capacity is relied on to produce pro-poor health benefits?

The case provides a glimpse at how many sectoral and national scale CD problems could be examined analytically using a combination of modeling and careful institutional analysis.

### ***Tanzania Agriculture***

“[Agriculture Sector Development Programme in Tanzania](#),” examines PBA strategies and program activities for their contributions to capacity development. With a population of about 34.5 million, Tanzania has 40% of its population living below the poverty line. Tanzania's agriculture sector contributes 50% to the country's Gross Domestic Product, so progress in that sector is fundamental to the country's overall growth rate. The sector faces a number of important constraints, including: low productivity of land, labor, and production inputs, poor rural infrastructure, inadequate agricultural support services, outbreaks of pests and crop diseases, and the prevalence of HIV/AIDS and waterborne human diseases.

The need for an agriculture sector program was first raised in a 1997 policy, which outlined the need for a sector policy. In 2001-2003, the Agricultural Sector Development Program (ASDP) was elaborated and expanded to cover district-level activities. Applying the government's decentralization initiative in the context of the ASDP has posed some challenges that differ from those felt by social sectors. While a single, national strategy and program standards often can be formulated for at least some parts of the social sectors, ASDP has had to accommodate sub-regional differences in climate, water resources, soil conditions, and marked preferences for certain food by different ethnic groups..

Capacity development efforts in ASDP also had to be adjusted to address the complexity of the agriculture sector. Particular challenges were faced due to the low capacity of local government authorities and to accommodate the key role played by private sector partners. Special attention to CD needs has been required to address the needs of both the ASDP secretariat and local governments. There has been a complementary need to change the mindset of local government officials toward facilitating implementation of the program by private sector producers and

service providers. On the private sector side, an overarching issue has been the need to bring them along to recognize and appreciate ASDP's existence and the new opportunities that it can offer for enhancing the sector, by helping them to build up their organizational skills, access investment and market information, and reinforce the security of land holdings.

Among the principal conclusions of the ASDP Review were the following:

- Central government had planned and implemented all development programs since reforms began in 1998, meaning local governments lacked experience
- Central government agencies in the sector nonetheless often failed to recognize and fund needed CD for local governments
- CD for individuals, such as through training activities, is not enough, and needs to be supplemented by CD efforts addressed to the organizations themselves in terms of capacity for policymaking and planning at the district level.

### ***Bolivia Water***

The presentation and paper titled "[Bolivia: New Approach In the WSS Sector Fosters Capacity Development at National and Subnational Levels](#)," compare Bolivia's earlier efforts at capacity development in the water supply and sanitation (WSS) sector to the more recent effort to broaden and sustain CD on a more sustainable basis. In the 1990s, the Bolivian government neglected CD in the WSS sector in the belief that infrastructure investments alone would suffice. As a result of this and other factors, the sustainability of their WSS investments was threatened.

In 1997, the state-run water utility for the capital, La Paz, was given over to an international private sector concession, and in 2000, the utility in Cochabamba, the third largest city, was also contracted to an international concession. These reforms produced some improvement in efficiency and sustainability to the WSS programs in urban areas, but in 2001 and again in 2004-05, civil unrest led the national government eventually to cancel these two private concessions.

Since 2002, the Bolivian government has pursued a reform agenda for the sector that is constrained to function in a policy environment in which the Bolivia WSS sector which the authors described as, "an anti-globalization battlefield by international NGOs," while dealing with inefficiencies and corruption under more traditional models of service provision. This agenda has focused on three core issues: I

- Identification of New Financial Policies to guarantee higher coverage and sustainability of WSS investments
- Creation of a Foundation for Technical and Management Advisory Services (FUNDASAB) to support improved investments and capacity, and
- Adoption of a new Sector Investment Funding Approach (SIFAp) to channel donor investment funds to the sector.

To address the needs for CD in the WSS sector, the government and donor partners have pursued the three reforms listed above plus two others:

- Development of a sector information system
- A structural adjustment credit (SSPSAC), which offers donors and government a platform for sector policy dialogue and helps to manage the risks of inappropriate political influence on sector policies.

Remaining challenges to address CD problems include:

- The need for good financial management and technical know-how to structure and implement the New Financial Policies and the SIFAp
- Slow progress in institutionalizing CD requires good communications between the technical foundation (FUNDASAB) and New Financial Policies steering committee
- The need for the water utilities to take ownership in reengineering their operations and attracting donor financial support for technical assistance (TA) and investment funds
- The need to build up shared ownership in the stakeholder community (including the national government, local water utilities, donors and other partners), based on quality assurance, monitoring, evaluation, and feedback on mid-term outputs, milestones, and impacts
- The sectoral approach, as the authors state, “depends to a high degree on the government’s political ability to manage and – even more importantly in the medium term—to prevent conflicts about water issues in a prudent but also a sustainable manner.”

### ***India Education***

The case study titled “[Lessons on Capacity Development Through Education PBAs in India Case study of Chhattisgarh and Rajasthan](#),” analyses two overlapping PBAs in India: the District Primary Education Program (DPEP), which ran from 1994 to 2003, and Sarva Shiksha Abhiyan (SSA), covering the years 2000 to 2010. At full scale, these huge PBAs cover the education sector in all 600 districts of the country. Altogether, this represents 192 million children, 850,000 schools, 330,000 teachers, and 60,000 resource centers.

These PBAs were considered to have strong government ownership, a comprehensive results framework, national accountability systems, and government-led donor coordination. They were established and managed centrally to provide additional resources for primary and elementary education to the States. Whereas State budgets were devoted primarily to salary and operational costs, the national government-led PBAs supplemented these funds for special purposes.

In the past decade, this program has provided \$3 billion in international financing for ongoing government financing to the sector. Among the activities supported were the following:

- These PBAs promoted the decentralization of planning to the district level, for the first time, and financed expanded capability in planning and technical support at the district levels and below.
- A massive effort was made to expand decentralized in-service teacher training through a countrywide teacher support network.
- Semi-autonomous implementation societies were established for planning and management of reforms at the state and district levels.
- Stakeholders and beneficiaries were encouraged to participate in educational activities at local level.
- Capacities for micro-planning, household surveys, and managing school renovations were developed in decentralized community groups.

To illustrate the lessons from this PBA experience, the case study examines in greater detail the experience of two northern States., Chhattisgarh and Rajasthan. Formed in 2000 out of a portion of Madhya Pradesh, Chhattisgarh is India’s youngest State. It has a population of 20.7 million

and a literacy rate of 65.2%. Rajasthan is India's largest State, with a population 56.4 million and a literacy rate of 61.0%.

The case study provides a number of valuable insights about PBAs and CD, including the following:

- In undertaking CD, States followed national norms and criteria but did not take into account variations in the existing capacity and development challenges of each area. Among these variations in context and needs, for example, literacy rates range among districts in Rajasthan from 45% to 75%. In Chhattisgarh, literacy rates range among districts from 77.5% to 30.01%. CD efforts were not tailored specifically to these varying situations.
- Goals and objectives for CD were not linked to achievement of educational goals and objectives. Consideration was not given in most places to the incentives and stimulus for CD and change processes.
- Parallel structures, such as the autonomous State-level Society, received funds outside the State financial structure and bypassed existing management institutions. While the innovative use of Societies permitted rapid expansion of educational services, these parallel structures were then also a threat to sustainability of the activities in the PBA beyond the program period. Other local structures such as the Village Education Committees were created and strengthened, but their role competed with and over time weakened existing legitimate local elected bodies such as the Panchayati Raj Institutions.
- Many CD efforts fostered rapid expansion of educational services but in the process neglected to address adequately serious governance issues and policies, such as teacher recruitment and pay. A key governance problem cited in the case resulted from a gradual transition under the PBAs to recruitment of on-contract "para teachers" whose pay and benefits were far lower than those of permanent teachers. The two States have now stopped recruitment of regular teachers in favor of various types of "para teachers."
- The two PBAs gave major attention to building "task oriented" individual and group capacity, as opposed to institutional capacities. In Chhattisgarh, the newly formed State, this lack of attention to institutional capacity negatively affected their progress under the PBA.

Overall, the PBAs were designed and established by the Government of India based on the country's earlier bilateral project assistance. Strong ownership by the Government was featured in both the first PBA, DPEP, and the second one, SSS. Joint Review Missions were conducted in DPEP, with a rotating lead agency among the partners to direct the reviews. Under SSS, the Government of India will be in the lead for all joint GOI-donor review missions. The case study points out that joint review missions will now be taking place only once a year, potentially reducing the amount of attention that can be dedicated to problem areas.

### **Honduras Education**

The case study on "[Capacity Development in the Honduran Ministry of Education](#)," applies an analytical framework developed by Boesen and Therkildsen (2004)<sup>4</sup> to identify constraints to successful capacity development in the Honduran education sector.

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<sup>4</sup> Nils Boesen and Ole Therkildsen, "Between Naivety and Cynicism: A Pragmatic Approach to Donor Support for Public-Sector Capacity Development" In *Capacity Development Evaluation*, Step 4 (June 2004), published by Danida, Foreign Ministry, Copenhagen, April 2005. (Accessible at

In 2002, Honduras became one of the several developing countries selected to participate in the Education for All Fast-Track Initiative (EFA-FTI). The EFA-FTI proposal for 2003-2015 aims to achieve a 100% primary school completion rate along with improved learning outcomes in math and Spanish, and increased operational efficiency in the educational system. Ten multilateral and bilateral aid agencies and development banks support the plan.

A structural feature of the EFA-FTI PBA is its focus on very specific goals involving only portions of the education sector. This PBA thus has features of a mega-project that has resisted donors' calls to mainstream it into the Ministry of Education. From the beginning, participants in EFA-FTI have attended to institutional capacity issues in the Ministry of Education, by conducting studies and drafting institutional strengthening plans. However, many of these efforts were thwarted or otherwise failed to improve capacity.

Efforts to promote CD are analyzed using a two-by-two table that distinguishes the functional-rational and political dimensions of organizational change along the horizontal axis, and internal and external organization factors on the vertical axis.

The case study points to ongoing internal political forces spurred by a lack of incentives that reduced the effectiveness of reforms aimed at the decentralization of the Ministry, improved educational statistics, more rational decision-making and improved work environments. A number of external political factors identified in the study also undermined progress in CD. These included the 2005 election, the influence of teachers unions, and weak demand for accountability by civil society.

The case study closes with an insightful analysis of several key issues having to do with donor support for CD:

- How to develop capacity without creating dependency
- How to buffer the negative effects of “big money” on existing incentive and management systems, and
- Addressing when and how it is appropriate for donors to provide direct technical support in a PBA environment.

### ***Nepal Capacity Development of Local Bodies***

With a population of 22.7 million and land area of 147,000 square kilometers, Nepal several years ago entered into a succession of decentralization programs and donor driven decentralization projects which, individually and collectively have had mixed success. This case study, titled “[Capacity Development of Local Bodies in Nepal](#),” analyzes the results of a local governance capacity development strategy to identify its contributions to improving the performance of District Development Committees. A major element of the strategy is the Decentralized Financing and Development Program (DFDP), which operates in 20 out of 75 districts in Nepal. With support from the United Nations Capital Development Fund and other donor partners, the DFDP fosters participatory local development through small-scale infrastructure projects.

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<http://www.um.dk/en/menu/DevelopmentPolicy/Evaluations> and on the CIDA PBA extranet site at: [Between Naivety and Cynicism](#) ).

The intent is that participating districts will build up their capacity and overcome challenges to improving local governance through the process of planning, designing, implementing, monitoring, and maintaining these local projects. To address CD needs at district level, local District Development Committees propose potential CD projects after completing an eight-step self assessment of capacity gaps. This demand-driven project design fits into a larger participatory planning process. An Association of District Development Committees, founded by the District Development Committees themselves in 1995, serves as the implementation support arm of the DFDP. The Ministry of Local Development defines the core CD components and provides quality control over the CD activities and participating service providers. The CD strategy, and the DFDP in particular contain several innovative features, including several organizational features that attempt to balance demand and supply of CD and the use of local incentives.

Using the familiar CD frameworks proposed by Merilee Grindle and Mary Hilderbrand,<sup>5</sup> the case study undertakes a careful analysis of the action environment, the public sector institutional context, and resulting performance output. Among readily identified factors detracting from effective progress in CD were the lack of incentives, effects of an unstable political situation, and the limited efficiency of local bureaucracies. The authors go on to explore difficulties with coordination and communication among the committees and agencies working under the strategy, pointing to several ways that these issues detracted from successful capacity development. They also explore the effects of institutional culture on weak performance of the local governments, finding variations in political will that affected the quality of governance and performance. The case provides many insights into the obstacles to successful CD and ways that institutional performance can be improved in areas such as planning, financial management, coordination among line ministries, and service delivery.

## **V. From Diagnosis to Results – Lessons from the Case Studies**

To gain the maximum benefit from the insights and practical ideas of the case studies, each case was discussed twice. In the second round, participants reviewed each case from the perspective of five common themes covering what we wanted to learn collectively about capacity development under PBAs. Participants were grouped together by sector as described in the agenda (see Annex 1). Highlights of discussions from this session are summarized below.

### ***False Starts***

The power of both the CD and PBA paradigms is that they encapsulate some important lessons about how to approach development cooperation. In this respect, they help to avoid “false starts,” examples of which were provided in section II of this report. These include thinking that capacity is something that can be “transferred” from North to South rather than something that partner country institutions must acquire for themselves, or the too-simple identification of support for capacity development with technical assistance (TA) and training.

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<sup>5</sup> See, for example, Mary E. Hilderbrand and Merilee S. Grindle, “Building Sustainable Capacity in the Public Sector: What Can Be Done?” In Merilee S. Grindle, Editor, *Getting Good Government: Capacity Building in the Public Sectors of Developing Countries*. Cambridge, Mass: Harvard University Press, 1997.

However, the main lessons about false starts to emerge from the case studies were not the standard ones. It was evident that many of the lessons represented by the false starts of yesterday are already being applied under PBAs and did not need to be reiterated unduly in Washington. The false starts emerging from the case studies were of a different type, associated with the difficulty of applying the CD paradigm in a systematic way in the PBA context.

What emerges from the case studies is an improved understanding of the transition that is taking place from old approaches, which may not have paid very much attention at all to capacity development or which addressed capacity development in a piecemeal way under the project mode, to a new approach, in which CD was a central preoccupation addressed in a relatively systemic way by a community of partners. Rather than speaking of false starts, the cases spoke more eloquently, if anything, of promising, if imperfect, beginnings.

The working group on the water sector most clearly evoked the old model as one in which infrastructure investments had been the norm, and CD had if anything been seen as a necessity for successful implementation of infrastructure projects, but in other sectors, the old approach was often clearly visible in the form of a multitude of projects being managed in a less than fully coordinated way. The case of Tanzanian agriculture was a good example of this. There were some interesting contrasts also in the degree of attention specifically paid to CD, e.g. between Bolivia Water which focused on CD from the start, and India Health, where CD was not specifically part of PBA design.

That the promising beginnings were imperfect is not surprising. The demands of the new approach are immense – requiring a strategic understanding of complex and dynamic systems from a human, structural as well as political economic understanding. The cases were useful in helping to identify certain areas worthy of particular attention. They include the following:

### ***Insufficient attention to systems***

Perhaps the most commonly cited observation was that capacity development efforts were still focused on the parts of systems – on particular capacities – rather than focusing on systems performance, and the priority needs to be addressed in order to achieve improved performance. Frequent mention was made in all groups of the need for greater attention to salaries, incentives, and performance, or to systems of accountability.

As expressed by those reviewing the India education case, the emphasis was on individual capacities as opposed to institutional ones as part of a unified framework. Another group referred to “ad hoc application of CD, in response to specific needs rather than an overall perspective on performance.” Yet another group emphasized that it was not just reinforcements of a system’s components that mattered, but also how the elements related to each other in the pursuit of systems performance, how the whole could be either more or less than the sum of its parts.

In some cases, including India Education, but also Nepal CD of Local Bodies, new structures and frameworks were developed to deliver results during the life of a particular project, while ignoring existing structures, or paying enough attention to issues of financial sustainability over the long run. In the Nepal case, the entire recurrent costs of the organization are covered by DANIDA while internal revenue generation capacity is very weak. Overall in this case, a lack of donor coordination meant that development efforts were heavily biased towards the generation of immediate benefits to the ultimate clients of service provision. This created high demands and expectations, which subsequently could not be met. In other cases, the creation of new structures

was considered a successful outcome of a PBA, as in Bolivia Water and Sanitation, where the new structures were created specifically with the purpose of creating new capacity. By and large, however, the PBAs reviewed were true to the model, using existing institutional structures in a learning-by-doing model of capacity development.

### ***Technocratic focus / insufficient attention to political considerations***

It was recognized in the introductory plenaries of the forum that support for capacity development required a thorough understanding of the politics of change to be successful. While this was well recognized by participants, most of the case studies pointed to the need for greater understanding of these political realities.

For instance, the working group covering the case of Ghana Water and Decentralization argued that more attention should have been paid to the political context. The presenters argued that support to the Local Government Association had failed because the association was too closely linked to the government.

Similarly, considerable resources had been invested in the training of local governance platforms such as district assemblies. However, this did not lead to improved performance in the absence of greater clarity on the roles of different institutions. Local authorities, instead of being regarded as falling under the umbrella of the district assemblies, were rather seen as an instrument of the Ministry of Local Government.

The Nepalese situation was considered to represent a stronger case from this perspective, with clear roles and well functioning local authorities. However, this was considered a high-risk initiative considering that the country was in a state of civil war at the time.

One case study, that of Honduras education, took an explicitly political economic approach to the analysis, and identified a number of political constraints to progress, some of which may have been temporary, but others of which pointed to endemic factors that could only be addressed in the context of protracted political dialogue and governance reform, such as the lack of permanence of huge portions of the civil service, following the election of a new government.

Some of the cases referred to the need for greater multi-stakeholder involvement early on in the life of emerging change processes. For instance, the session comparing efforts in the water sectors of South Africa, Bolivia and Uganda pointed to the lack of sufficient attention to user involvement and NGO perspectives.

### ***Gaps in coordination and harmonization***

Several cases also identified the insufficiency of donor coordination and harmonization and the inefficient use of resources that resulted (some of the water sector studies, Tanzania Agriculture, Ghana Decentralization and India Health). In India education, the lack of coordination occurred at the government level, with the creation of autonomous state level societies that duplicated the efforts of the Dept. of education.

### ***Strategies and Approaches***

PBAs open up opportunities for engagement in capacity development that go beyond what would be possible under project-based approaches. This was confirmed by the case studies, which

clearly reflected a different way of doing things. The case studies provided some insights into emerging CD practice under PBAs, along three lines.

### *National to local – complex models of capacity development*

Almost all of the cases discussed involved PBAs that were applied to systems including several levels on intervention, from the national to the most decentralized level of service provision. Although in conventional discussions of SWAs and budget support operations, attention to issues of capacity development seems to dwell primarily on centralized government functions such as planning and public financial management, the cases reviewed in this forum did not fit this model, as they paid considerable attention to CD at both then national and lower levels (e.g. India Education, India Health, Bolivia Water and Sanitation, Tanzania Agriculture). One of the discussion groups referred to this as the “Nation-community” approach.

Initiatives that included capacity development at local levels included formulas allowing for locally-adapted responses to local needs. For example:

- Bolivia Water included a special joint funding mechanism for local initiatives. This involved the creation of a foundation responsible for CD quality control and resource allocation with a cascade of CD interventions from the central to the local level (eligible contractor entities at the second level).
- India Health included mechanisms and tools for needs assessment at the local level. An MOU between the central government and each state encouraged ownership over the process.
- In India education, deliberate efforts were made to empower local communities, and experiences piloted in some areas were expanded national wide.

There were evidently some tensions between the use of nation-wide approaches and the ability to cater to specific and differentiated local needs. In discussions of the India Education SWAp, it was recognized that specific approaches had been adopted for specific groups, but also that insufficient differentiation had been made among states with markedly different situations in terms of literacy or capacity to manage the education system. Similar comments on the balance between generic and specific CD initiatives were offered in the case of South Africa Water.

A discussion of CD needs at the district level in Tanzania agriculture suggested the need to help local governments achieve the capacity to perform the following functions:

- Act as facilitators for the private sector – which requires changing the mindset of local government officials to facilitate implementation of the program by private sector producers and service providers.
- Have a good understanding of SWAs.
- Prepare agricultural development plans consistent with PRSP-2.
- Integrate agricultural development plans into district development plans to be financed through the MTEF.
- Deliver all main technical services to local actors (avoiding vertical fragmentation of support functions).

## ***Diagnostics***

As noted earlier, CD under PBAs is part of an ongoing transition from a project-based to a systems-based approach. As a result, CD under PBAs involves an iterative approach. In most cases, capacity assessments and diagnostics at the front end have been limited – although that raises questions about what the “front end” consists of in an ongoing process of change. The exception may be for fiduciary assessments, which are inevitably conducted with a degree of rigor and thoroughness whenever joint funding modalities managed under host-country systems are being contemplated.

It was noted that scale and diversity in large scale PBAs do not allow ‘omnibus approach’ to CD. CD assessments and plans must be particularly attentive to weakest spots – most often the areas where progress and impact of PBA are expected to be highest. Participants in the education sector group noted that most PBAs are not yet based on thorough sector analysis.

Reference was made to CD planning driven by consultants geared towards providing more TA and inputs, so supply-led approaches evidently continue to be an issue. However, this was clearly more of an issue in some cases than in others. The discussion group focused on the water sector noted a shift from fragmented and limited approach to an integrated vision of the water sector that distinguished among the mandates, roles and functions of different entities and focused on existing capabilities and needs. In cases involving a strong host partner, such as the two Indian cases, the role of external consultants was obviously minimal. Elsewhere, the tendency of outside consultants to take over was considered more of an issue.

A tension was identified in the India Education case between those wanting to ‘fast-track CD’ and approaches that could help to ‘institutionalize’ CD efforts in sector institutions and domestic budget frameworks. Bolivia water provided an interesting example of such institutionalization processes. Honduras Chagas Eradication is a successful example of a fast-tracked or ‘quick-win’ approach, that could form the basis for longer-term, more complex efforts.

In considering the need for a more institutional approach, participants pointed to the importance of building up the capacity for self-assessment of CD needs. From this perspective, the elaboration of a CD plan can in itself help to build ownership, particularly if the host partner is also responsible for monitoring of implementation and impact. However, this raises questions about the capacity of the host for self-assessment of CD needs, and about how to supplement such capacity (Honduras Education). In complex CD processes, additional questions arise about how to assess needs that are very diverse, and at what level of ‘subsidiarity’ those needs should be assessed (India Education).

## ***Demand and Supply for Capacity Development***

A recurrent theme in the forum was the need for attention to both the supply and demand sides of capacity development. In the water sector, for example, CD efforts were more valued and useful when they were directly linked to specific functions of different entities. This seems obvious enough. An additional requirement that was often mentioned is that the entities should also feel accountable for improved performance over time, which is another expression of “demand” for CD. As noted earlier, this was often mentioned as an area requiring additional attention.

In a decentralized context, initial CD activities in the water sector tended to be supply driven and delivered by central to local governments. A move to demand-based CD was facilitated by the fact that CD activities were accountable to local governments from the offset. Local governments

were requested to prepare Water Service Authority Capacity Development Business Plans and then given the authority and the funds for the implementation of such plans. However, the water group also pointed to the lack of focus on user involvement. In Bolivia water, incentives to focus on performance issues were stimulated by the funding mechanism itself, which linked grants and loans to the development of modernization plans.

On the supply side, the water sector group pointed out that capacity development service providers themselves may need to be reinforced, and that the capacity of such service providers tended to be underestimated.

### ***Roles of External Partners***

One of the contributions of the CD perspective is that it emphasizes endogenous processes and the role of external partners such as donors in promoting those processes, rather than particular types of inputs, such as technical assistance or training. From this perspective the role of donors can be conceived in terms of how best to contribute to such processes. The promotion of CD under PBAs involves a significant shift in approach that includes an enhanced role for learning by doing, for policy dialogue and multistakeholder engagement, compared to project or TA based approaches.

Participants were asked to consider five roles that donors or outside experts could play in promoting capacity development:

- Facilitating access to knowledge, technology, ideas, new management approaches
- Facilitation of networking, new relationships with outside parties, consensus building
- Policy dialogue and advocacy including specific policy reforms, promoting RBM, support for accountability to beneficiaries, encouraging participation & transparency
- Provision of incremental resources that facilitate change processes
- Providing space for learning by doing

PBAs were seen to provide space for donors to play all of these roles in an integrated way, at the system level, and examples of all of these roles could be found in the cases studied. The cases confirmed that PBAs, when properly executed, are able to combine all of the elements necessary for progress on the CD front: a systems perspective, human and financial resources, policy dialogue and space for learning-by-doing. For instance, the discussion group focused on the water sector spoke of an integrated vision that includes sector policy dialogue, transparent incentives for water utilities and specific measures of support for CD (training, technical support, etc.). PBAs are thus potentially a very potent vehicle for promoting capacity development processes.

Among the observations made relating to specific donor roles were the following:

#### ***Facilitating access to knowledge, technology, ideas, new management approaches***

The role of external agents in facilitating access to knowledge manifested itself in different ways, and may have involved either donor representatives themselves, or technical assistants with specific roles to play. Participants highlighted the need for attention to the role that different external partners could play in this regard, and to an appropriate division of labor. The Honduras Chagas Eradication initiative provided an interesting example of various external partners –

PAHO, CIDA, JICA, and World Vision – bringing complementary forms of expertise to a PBA and learning from each other in a constructive way.

Long-term commitment was considered essential in playing this role, as it allows donors to play different roles at different stages of the sector process. At the beginning of a sector program, donors tend to play a more prominent role, once the process has reached maturity, donors' role can be limited to prompting and introducing new ideas (water session).

### ***Facilitation of networking, new relationships with outside parties, consensus building***

Donors were seen to play a number of facilitation roles, although some participants felt that this role of external partners was not receiving as much attention as it should. In the education sector, a particular need was seen for strengthening the links between the Ministry of education, civil society and the research community. In the water sector, joint sector reviews were seen to constitute a joint learning opportunity for all stakeholders involved.

An outstanding example of networking was the experience of Africa Forum as an example of an initiative which was not itself a PBA, but a way for African decision-makers and practitioners and external partners to share experience about PBAs in agriculture and rural development. Another example or a regional network of partner countries for CD that was cited (although not represented among the case studies) was the West Africa Drug Procurement Network, supported by the EC, France, and WHO.

Within particular countries, donors were seen to have a potential role to play as a catalyst or as enabling agents to bring parties together for the discussion of reforms or to learn from each other (e.g. Chagas Eradication). They noted that information exchange is not only valuable in its own right, but also because it helps to build up relations of trust that lead to improved collaboration in the future (social capital).

### ***Provision of incremental resources that facilitate change processes***

The case studies do not seem to have systematically addressed the question of whether CD efforts within PBAs were being adequately resourced. It was noted that provision of resources under PBAs need not lead to performance enhancement unless specific linkages are made to performance (Bolivia Water, India Health, India Education). In the case of funding from the International Financial Institutions it was felt that insufficient efforts were being made to target resources specifically for CD.

### ***Policy dialogue***

Clarity on the role of policy dialogue in promoting CD requires some clarity on the link between policy and performance. As was argued in the Uganda Water case, performance is a function of general polities, institutional reforms and capabilities. Policy dialogue can target each of these.

Participants in the form focused on the role that external parties can play in drawing attention to CD issues, compared to host-country partners who may be caught up in the day-to-day delivery of services. Although learning by doing is liable to occur spontaneously from day-to-day activities, donors can help to draw attention to the need for change at the systems level to stimulate both improved performance and an improved learning environment. Bolivia Water and India Education were both cited as cases where donors had played this sort of role.

From a more political economic perspective, donors were seen to be in a position to champion support for values that may be difficult to address or which involve the empowerment of disenfranchised parts of society. Donors have a specific role to play in encouraging the adoption of transparent, rule-based financial policies compared to more discretionary approaches (Bolivia Water, India Education).

### ***Providing space for learning by doing***

The provision of space for learning by doing is a fundamental tenet of PBAs and seemed to be practiced in both the spirit and the letter of the PBAs studied. Participants noted that donors needed to be distanced from implementation of PBAs, while active in promoting change and enhanced performance over time.

### ***Results Achieved***

On the subject of results achieved, the discussion in Washington did not focus so much on increased levels of particular capacities or performance, so much as on changed relationships, approaches and processes. Among the comments offered were the following.

#### ***Transition to new approaches***

As observed earlier, CD under PBAs is evolving, from reliance on individual projects, towards more holistic, joined up, approaches. In Tanzania Agriculture, for example, CD processes are helping to ease the transition to a SWAp. Development partners are expected to support this transition with a move from project support to basket funding (to be managed with local procedures) and eventually to budget support. Cross-sector learning is also evident from SWAps currently ongoing in Tanzania in the education, health, and forestry sectors.

Other participants noted increased ownership of sector policy by sector stakeholders, increased attention to budgeting at the sector level, and more effective allocation of sector resources (water sector).

The Honduras Education case drew attention to improved processes, and particularly to the increased effectiveness of the policy and planning group in the Ministry.

Reference was made also to improved relationships among stakeholders (Chagas)

#### ***Increased resources for CD***

Several references were made as well to the increased attention or resources being accorded to CD, to enhanced, or to more sustainable CD processes and structures, as described elsewhere in this report (Chagas, India Education, water sector).

#### ***Increased domestic accountability***

Considering the frequent calls that were made for increased attention to accountability issues, it is nonetheless interesting to note how often improved accountability structures were evoked. Among the examples noted were the following:

- A transition to monitoring focused on output and outcomes, not solely on inputs (water sector)
- Joint decision-making (South Africa Water)

- Use of tracking and value for money studies as bases for performance assessment (Uganda Water)
- Performance monitoring and strengthening of vertical accountability, so that entities previously accountable directly to donors are now accountable to the national ministry. (water sector)
- Significant improvements in public financial management and procurement (Honduras education)
- Adjustments made to the PFM system to align with the decentralization of functions and resources to local governments (water sector)

### ***Challenges Ahead***

Needless to say, numerous challenges were raised as part of the discussions, many of which are implied in the above. Among those that can be quickly mentioned to avoid undue repetition are the following:

- Ensuring the CD receives adequate attention and that CD efforts are incorporated in PBA budgets
- Incorporating non-state actors into development plans
- Addressing regional/local differences in large PBAs and CD and ensuring that alignment with national programs does not impede adjustment to local realities
- Taking a systems perspective and focusing on performance of those systems – understanding the link between CD narrowly understood, incentives, accountability, and performance.
- Demonstrating the link between CD and results.

To this can be added some issues that were discussed in greater depth or in different ways under the heading of challenges.

### ***Coming to Terms with Politics and Power***

Participants recognized that systems performance is not just a technical issue, but one having much to do with incentives, accountability and the use of power. This raises fundamental questions about how to promote meaningful change while also respecting the imperatives of local ownership that are a cornerstone of PBAs. How, for instance, can donors promote a meritocratic administration (that is, one based on demonstrated ability and talent rather than family connections, privilege, patronage systems or other historical determinants of power)? How can donors help to overcome vested interests opposed to necessary reforms?

Two cases, Honduras Education and Nepal Local Bodies evoked considerable discussion of political issues. Although these cases were very different, both illustrated the difficulties of making strategic choices about development cooperation in politically unstable settings, and indeed the limits of development cooperation on its own in politically inhospitable climates. Adapting interventions in strategic ways in such settings requires particularly fine knowledge of local political settings, and a capacity to respond quickly to shifting opportunities and constraints.

### ***Donor capacity, incentives, and horizons***

However, groups studying less fragile country situations made similar observations about the need to take a long-term perspective and invest the necessary time and resources to understand local realities and work with those who already do. Unfortunately, donors have little

understanding of political and power issues that are crucial to the success of systems reform. This makes it difficult for donors to intervene successfully in processes that are likely to involve winners and losers and considerable uncertainty.

Furthermore, while a long-term commitment is key to enhanced systems performance, donors do not have the patience to sit out long-term CD processes. As much as participants emphasized that donors should apportion their aid according to capacity and adopting an appropriate mix of aid modalities, it was recognized that disbursement pressures at the donor end often lead to a preference for quick disbursement mechanisms where more strategic and measured combinations of modalities might be more appropriate.

These observations represent fundamental challenges. Serious attention to systems performance is likely to require serious changes in the way development cooperation is managed, and an appropriate balance of high disbursing aid modalities when conditions permit, combined with the use of other modalities to address issues of systems performance.

Such considerations of donor capacity and incentives led some participants to comment again on the issue of accountability, but this time, accountability of donors for results – not just for disbursements or for scaling up of pro-poor services, but for the strategic use of resources in promoting enhanced systems performance. They pointed to the concept of mutual accountability, now widely adopted by DFID, as a possible tool for promoting increased accountability for aid effectiveness; and advocated measures to increase the capacity of developing country actors to hold donors accountable (parallel session 3a on strengthening vertical and horizontal local capacities).

### ***Implementing strategic incrementalism***

Flowing through much of the discussion, as well, was the closely related issue of how to engage in capacity development in a strategically incremental way. As the above makes clear, there is obviously no recipe for doing this, except to ensure that donors are held accountable for the right things and given the resources to invest over the long term, based on intimate knowledge of local realities. . Some of the additional points emerging from the discussions included the following:

- Recognize and accept complexity.
- Recognize the impatient nature of political systems. This means that quick wins are not to be frowned upon. Instead, they should be seen as a political necessity – as a building block for more complex or long-term undertakings.
- While capacity needs to be build at all levels, capacity for change is limited. This calls for iterative approaches, and if possible some division of labour allowing for work to proceed on different fronts. Models based on decentralized decision-making of the sort evidenced in several of the case studies are one way to do this.
- A solution in some cases may be to focus on certain areas, as was done in the India Health case, where to focus on the 15 poorest states, rather than spreading resources too thinly.

## **VI. Principles of Effective Support to CD under PBAs**

Following an open space session in plenary to identify a number of key issues that participants wanted to discuss in some depth, a number of working groups were organized to discuss these issues. The following summarizes the key principles of effective support for capacity development under PBAs to emerge from these group discussions

Results can be summarized in terms of the following recommendations:

### ***Make a priority of capacity development***

The shift to PBAs logically begs for attention to CD. This is obvious with regard to PFM and procurement, when budget support is provided, since budget support raises obvious fiduciary concerns. However, the same argument holds for the implementation of PBAs. If implementation is being done through local institutions, then the capacity of those institutions to deliver results is of obvious importance. Unfortunately, effectiveness in terms of implementation is less likely to come up as an issue of public debate, provided that some progress is evident on pursuit of the MDGs. The focus of attention on impacts that the MDGs encourage tends to obscure issues of systems performance, because progress along some of the MDGs may occur despite poor institutional performance. Explicit efforts are required to get CD on the agenda.

This sort of explicit effort is required early on and should become part of the policy dialogue. There are some examples of early and strategic engagement of this sort in the areas of Public financial management and procurement, as described in the DAC good practice papers and reflected in current field experience in a number of countries. As explained above, these are areas that the donor community has taken particularly seriously under PBAs. The Bolivia Water PBA is a good example of an initiative that fully integrates the CD dimension.

Donor guidelines for engaging in PBAs should include discussions of capacity development, and provide guidance on how to engage in existing change processes. At field level, priority should be accorded to joint capacity assessments and diagnoses of capacity issues, with due attention to different types of capacity (see section on unpacking below).

This should be combined with efforts on the demand side, by encouraging mechanisms that give visibility to performance indicators such as unit costs, service quality, and client satisfaction. Independent monitoring of government and donor performance of the sort that has been put in place in Tanzania would help to draw attention to failings associated with neglect of performance issues.

There are reasons to think that increased strategic attention to CD is on the horizon. The shift from projects to PBAs is a recent one, so it takes time for development partners (both donors and host country) to make all of the necessary adjustments, and to profit from the new opportunities provided.

### ***Unpack capacity development***

Dialogue on CD is more likely to be productive if some important unpacking of the concept is done. For instance, it is important to distinguish:

- CD for improved fiduciary management
- CD for improved service delivery
- CD for systemic reforms (institutional, policy, etc).

Indeed, the types of measures that may be taken to promote enhanced performance are likely to vary considerably from one category to another. Systemic reforms are likely to be the most difficult area for change, but are likely to be fundamental to progress on other fronts. Forum participants were reminded that salaries often eat up 90% of sector budgets. Issues relating to

incentives and performance and salary reform are thus fundamental, and should be part of the dialogue on CD.

### ***Adopt a systemic, but strategic perspective***

As the World Bank study on Effective States and Engaged Societies suggests, interventions that are “strategic” and “systemic” do not necessarily have to be comprehensive in scope. Indeed, it may be necessary to avoid overambitious schemes. The ambition and comprehensiveness of capacity development efforts need to be tailored to the absorptive capacity of the local context and the readiness of domestic partners to implement change in different areas.

However, even “strategic incrementalism” requires an understanding of systems and existing levels of systems performance, a sense of where the partners would like to be in the future, and an appreciation how to get there, including some ideas about strategic sequencing. Such an approach involves a measure of CD planning, but is necessarily iterative in character, including adequate room for steps that are opportunistic, un-integrated, non-comprehensive, and perhaps unplanned altogether. Quick wins, if they can be achieved, will help to move the agenda forward.

Donor countries also need to understand that policy and institutional reform is a slow process in all countries, including industrialized countries. Cautious expectations are therefore required regarding the pace of change that can realistically be achieved.

### ***Focus on performance***

A strategic approach means that CD initiatives need to be considered from the perspective of their impact of systems performance, not just in terms of specific CD needs that may be felt. This requires that efforts be made to define what is meant by systems performance in particular cases, and to measure that performance. Improved systems performance means that unit costs are down, that service quality has improved for given costs, that timeliness of services has improved, etc. Indicators of systems performance are needed to complement indicators of impact, because the latter do not distinguish between the effects due to the application of additional resources and the effects of improved performance.

Attention to systems performance means focusing on concrete tasks defined in terms of specific functions, rather than upon imported models and theory of how systems should work. It implies the need to address the full sequence of factors required for improved performance, including skills and capacities, policies, incentives, and good governance.

Focusing on systems performance helps to legitimize donor involvement in promoting change. Attention to the performance of PFM and procurement systems is justified because donors have fiduciary responsibilities. Attention to institutional performance at the implementation level is justified in terms of partner commitments on the MDGs.

### ***Use TA judiciously***

Where institutional capacity remains weak, TA is likely to be required for some time to help fill strategic gaps and help to build up capacities over time. TA focused on technology transfer and the provision of advice may play an important role also in newly industrializing countries whose needs are more technical than financial in nature.

However, TA, especially when it is tied to donor country procurement or provided in kind, has been much criticized as a modality. Reference was made to the report of the Independent Monitoring Group in Tanzania, which pointed to TA as a very big issue for donor/ partner country relations. According to the report, the government viewed TA very negatively, for several reasons:

- It is provided primarily by foreign experts, although national expertise may exist.
- When donors provide TA through tied aid, this often seems to include a “control” function that may undermine its value to the recipient entity.
- Much of external TA is unsustainable.

Pooling of TA, or the creation of special funds for TA, is an option that should seriously be contemplated in many cases. This might involve creation of a special TA fund to be managed by the recipient organization itself, or by a particular donor or agency retained for that purpose. Donors may also divide up responsibilities for TA by covering different aspects of the reform agenda.

Other suggestions included the following.

- Finance for partner country institutions may be all that is needed in some cases. This allows the recipient to allocate funds according to perceived priorities, and to recruit consultancy services locally or internationally as required.
- Attention is required to both long-term and short-term needs. TA can fill gaps, while long-term support is required to build up institutional capabilities. The example of Cambodia was cited, where huge amounts of TA have been provided but donors have accorded too little attention has been accorded to long-term needs.
- Over the long-term, support for tertiary education and training is a more cost-effective solution than TA. The government of Cambodia has suggested that donors should overcome fragmented provision of TA by supporting a Public Sector Training Institute.
- In some situations, twinning arrangements between Northern and Southern organizations may also be an effective approach.

### ***Pay attention to non-state actors***

Non-state actors (private sector and civil society actors) are important in all sectors, and in some sectors, such as agriculture, private sector producers are the main target group. Promoting or supporting CD among non-state actors is thus fundamental to effective sector transformation and growth. This can take several forms:

- Promoting the establishment of an enabling environment in which the private sector and civil society organizations can thrive.
- Building domestic capacity to support non-state initiatives through development funds, micro-credit programs or similar initiatives
- Helping non-state actors to build up their own capacities in areas such as engagement in policy dialogue, monitoring and evaluation, or securing access to government procurement.
- Engaging non-state actors through corporate social responsibility or other mechanisms to contribute in a sustainable way to development efforts.

### *Don't walk away from fragile states*

Strategies on how to promote or support capacity development efforts need to be adapted to contextual realities. Participants identified four sorts of situations that could condition donors' approaches to working with state governments depending upon the capacity and commitment of those governments to engage in development reforms (low capacity/low commitment; low/high; high/low and high/high). Under PBAs, the situation is often one of low capacity but high commitment and most of the lessons identified in this report can be said to apply.

The situation changes when lack of commitment is manifest. Where commitment is weak, donors will have to use a flexible, and political economic approach in order to identify windows of strategic opportunity. This is likely to involve working with groups that are perceived as legitimate, and attempting to develop a critical mass of momentum for change over time. A variety of potential stakeholders may be involved, including the Diaspora, and the private sector. Efforts should be made to help establish checks and balances in society and to promote multi-stakeholder dialogue. This sort of approach requires patience and persistence, but may produce significant results over the long-term.

## **VII. Closing Session**

### ***Concluding Summary***

The aim of this last session of the forum was to draw together some of the major conclusions emerging from the discussions. This task was assigned to Nils Boesen, who listed what he considered to be the [major points and issues identified under each of the five conference themes](#).

### ***False starts and promising beginnings***

He mentioned some of the false starts that had been identified:

- Insufficient attention to context
- The technocratic focus of many CD efforts
- Reliance on consultant-driven diagnoses
- Distortions brought by donor modalities
- Emphasis on TA and training as the solution to all problems
- Inadequate appreciation of the long-term nature of the task or of timing as a factor of success.

However, he also pointed to “whispers of promising beginnings,” noting that even false starts could be followed by learning and improved ways of operating. He noted that the cases reviewed included cases where CD had been addressed from the start, and cases where it came later, but that both had produced results. Common ingredients of success included the following:

- A comprehensive perspective
- Appropriate sequencing
- Patience and flexibility
- Alignment of donor efforts with domestic needs, priorities and institutions.

### ***Strategies and approaches***

He then identified a number of recommended strategies and approaches emerging from the discussions:

- Move away from an approach based on donor-perceived needs to one based on domestic demand for change
- Address the full sequence of factors required for improved performance, including policies, institutions, skills and incentives
- Adopt a systems perspective, that accords appropriate attention to networks, levels and relations
- Adopt “strategic incrementalism” as a formula for moving forward is a realistic, but strategic, way.
- This approach should include room for steps that are opportunistic, un-integrated, non-comprehensive, and perhaps unplanned
- Creative incentives for CD and tailor the supply to meet domestic demands
- Focus on concrete tasks defined in terms of systems performance, rather than imported models and theory of how systems should work
- Encourage peer learning.

### ***Roles of external partners***

In discussing the roles played by external partners, he wondered about the usefulness of the external/internal distinction under PBAs, where donors are very much a part of the change process. Among the key roles that donors can play as part of that process are the following:

- Helping to set the agenda for policy reform
- Keeping attention focused on CD
- Engaging in policy dialogue and exerting pressure for change
- Facilitating and accompanying change processes; enabling access for new actors.

He made the point that the degree and type of donor involvement was not a moral issue but a pragmatic one based on what is likely to work in different circumstances. In some cases, donor involvement might extend to playing an active role in implementing change. In others, it may involve standing back and playing no role whatsoever.

### ***Results achieved***

In terms of results achieved, he noted that the forum had identified some promising stories of progress in CD. He pointed to the value of focusing on enhanced performance as a desired outcome from CD, but noted our lack of experience to date in pursuing such an approach. He pointed out that many of the results achieved were derived from donor and domestic mandates and pressure, or “sticks,” as he called them, and suggested the need for examples also of how incentives or “carrots” can be used to stimulate performance. Lastely, he remarked that some of the results observed could be qualified as unplanned synergies and that anyone working in CD should be prepared to be surprised.

### ***Challenges***

He identified five challenges that he considered among the most important to emerge from the meeting:

- On the donor side, issues related to limited donors’ capacity to engage in CD programs, donors’ limited time horizon and the lack of incentives for effective engagement

- Dealing with the political complexity of change processes that are context specific
- Ensuring the integration and complementarity of efforts both horizontally across different areas and vertically at different levels
- Taking the role of non-state actors into account
- The special challenge of CD in politically difficult contexts such as fragile states.

### ***Concluding observations***

In concluding, Nils reminded us that CD involves engagement in complex systems and that this has implications for the readiness with which CD initiatives can be planned and carried out. CD is inevitably messy, and cannot be streamlined or cleaned up. And while it is also long-term in prospect, we must deal with the fact that political systems are impatient. This suggests the need to combine long-term efforts with “quick wins” that can help to keep the momentum going. Awareness of the difficulties and complexities involved should encourage us to be modest in our expectations and ambitions, but also to work harder and more strategically in pursuing results.

This complex reality raises questions also about the adequacy of our existing conceptual framework as a basis for good development practice, and also about our ability to engage effectively as change agents. CD may be everybody’s concern, but that does not mean that everybody is capable of effective action in promoting CD. He concluded his comments by challenging other participants to draw their own conclusions from the forum and to share the lessons from their participation with others in their respective organizations.

### ***Discussion***

Closing discussions bore on issues having to do with the nature of the task and the future of the LENPA network. Questions about the nature of the task related to Nil Boesen’s question about whether the adequacy of the existing conceptual framework. Questions were asked about the link of CD to the MDGs, about the interface between CD and good governance, and about how to measure outcomes from CD efforts. It was noted that one could move towards the MDGs without building capacity but that sustainable development required parallel investments in capacity development. Success should be measured in terms of improved systems performance over time.

Questions were raised about the future of the LENPA network because alternative discussion forums do exist, and it requires leadership to maintain momentum for a network such as LENPA, and to organize forums such as this one. Participants noted that the particularity of LENPA as a network where donors and partners with different points of view could meet and exchange ideas, without having to come to a consensus, or to defend a particular point of view. Others noted that LENPA provided an opportunity to bring practitioners and analysts together, in such a way that both practice and theory were challenged.

### ***Closing Comments***

In her closing comments, Carol Peasley, Counselor to the USAID Administrator, said she had just reviewed a copy of the slide presentation that Nils had used and that she was very impressed by the work that the participants had obviously done during the Forum. Recalling her career overseas in the field, she noted how important capacity development is to countries’ progress in development. She underscored the importance of thinking holistically about capacity

development under PBAs, and going beyond the narrow confines of TA and training. She highlighted the need for a broad CD partnership that includes civil society and the private sector, as well as host country governments. She said that arguably the most critical element for successful capacity development is the political will and commitment of all parties involved, including donors, partner country governments, and private sector and civil society.

She noted the advantages of focusing on the use of country systems, as is the case under PBAs, and the potential dangers involved in making use of parallel structures and processes. In the past, these parallel structures typically were variations of project implementation units but more recently, they include large vertical trust funds such as the Global Fund for Aids, Tuberculosis, and Malaria.

She ended by listing some challenges for CD under PBAs:

- The sequencing of capacity development priorities
- The importance of having realistic expectations of the longer time frame that is required
- How to operate in difficult or fragile country contexts
- Promoting capacity development for actors playing advocacy and watchdog roles, including partner country parliaments, civil society, and the private sector.

She expressed her encouragement to LENPA and support for its continued success; and pledged her support to ensuring that USAID field staff receive materials and lessons from the LENPA conferences.

## Annex 1: Agenda

Time	<i>Monday April 25</i>
8.45	<b>Tea/Coffee</b>
	<b>Plenary Session 9.00 – 10:30</b> Chair: Joan Atherton, USAID
9.00-9.15	<b>Opening Address</b> (Frederick Scheck, USAID)
9.15-9.30	<b>Welcome and Introduction</b> (Gilles Hervio, EC, LENPA Coordinator)
9.30-9.45	<b>From Berlin via Tokyo to Washington</b> (Hagino Noguchi, JICA)
9.45-10.30	<b>Building capacity in Africa</b> (Brian Levy, WB)
10.30 - 11.00	<b>Tea/Coffee Break</b>
	<b>Plenary Session, 11:00 – 13:00</b> Chair: Thomas Thiesohn, UNDP
11.00-11.45	<b>A Systems Approach to Capacity Development</b> (Heather Baser & Peter Morgan, ECDPM)
11.45 -12.45	<b>Promoting CD Under PBAs – Elements of a Conceptual Framework</b> (Réal Lavergne, CIDA)
12.45 –13.00	Introduction to parallel sessions (Deanna Gordon, USAID)
13.00 – 14.30	<b>Lunch Time</b>
	<b>Case Studies</b>
	<b>WG 1</b> (moderator :Réal Lavergne, CIDA) - <b>Africa Forum</b> (Collins Nkatiko, Zambia, and Désirée Diertvorst) - <b>Honduras Chagas Eradication</b> (Jun Nakagawa et al., JICA and Honduras)
14.30 - 16.15	<b>WG 2</b> (moderator: Nils Boesen, DANIDA consultant) - <b>South Africa Water and Sanitation</b> (Charles Reeve, EC) - <b>Nicaragua Education</b> (Emilio Porta Pallais. EC) - <b>Uganda Water and Sanitation</b> (Richard Cong, Uganda)
	<b>WG 3</b> (moderator: Dieter Katterman, GTZ) - <b>Ghana Water and Decentralization</b> , (Henrik Nielsenm Danida) - <b>India Health</b> (EC)
	<b>16.15-16.45 Tea/Coffee Break</b>
	<b>Case Studies</b>
	<b>WG 4</b> (moderator Deanna Gordon, USAID) - <b>Senegal Health</b> (Amine Kébé, WHO) - <b>Tanzania Agriculture</b> (Hirofumi Hoshi, JICA)
16.45 - 18.30	<b>WG 5</b> (moderator : Réal Lavergne, CIDA) - <b>Bolivia Water and Sanitation</b> (Michael Wehinger, KfW & Franz Rojas, GTZ). - <b>India Education</b> (Shanti Jagannathan, EC)
	<b>WG 6</b> (moderator Ingemar Gustafsson, SIDA) - <b>Honduras Education</b> (Kate Reekie, CIDA) - <b>Nepal CD of Local Bodies</b> (Jakob Haugaard, UNCDF)

<b>Time</b>	<b><i>Tuesday, April 26</i></b>
8.45	<b>Tea/Coffee</b>
9.00- 9.45	<b>Plenary session 9.00 – 10.35</b> Chair: Andreas Proksch, GTZ
9.45 – 10.30	<b>Capacity Development in Public Finance Management</b> , Matthias Witt (GTZ)
10.30-10.35	<b>Strengthening Procurement Capacities</b> (Micheal Lawrance, CIDA)
	Introduction to sector group sessions (Nicoletta Merlo, EC)
10:00 – 11:00	<b>Tea/Coffee Break</b>
11:00 – 13:00	<b>Parallel sessions – by sector 11.00-13.00</b> - <b>Strengthening Local Authorities</b> (moderator: Dieter Katterman, GTZ) - <b>Water and Sanitation</b> (moderator: Danièle Testelin, JICA) - <b>Health</b> (moderator: Ingemar Gustafsson, SIDA) - <b>Education</b> (moderator: Réal Lavergne, CIDA)
13.00 – 14.30	<b>Lunch Time</b>
14.30 - 16.15	<b>Plenary – Open Space</b> <b>Break up groups – Open space</b>
<b>16:15 – 16:45</b>	<b>Tea/Coffee Break</b>
16.45 - 18.30	<b>Break up groups – Open space</b>

<b>Time</b>	<b><i>Wednesday, April 27</i></b>
8.45	<b>Tea/Coffee</b>
9:00 – 9:30	<b>Plenary session 9.00 – 13.00</b> <b>LENCD: What's New?</b> Thomas Thiesohn, UNDP
9:30 – 10:30	Reporting back from parallel sessions and open space – market place
10:30 – 11:00	<b>Tea/Coffee Break</b>
11:00 – 11:30	<b>Plenary session: 11:00 – 13:00</b> Chair: Gilles Hervio, EC - LENPA Coordinator
11:30 – 12:30	<b>Concluding summary</b> (Nils Boesen)
12:30 – 12:50	Plenary discussion
12:50 – 13:00	Planning of next forum – next coordinators
	<b>Closing remarks</b> – Carol Peasley, USAID
	<b>Lunch Time</b>

## Annex 2 : Documents and Links

Detailed information on this and other LENPA forums is available on the LENPA extranet site at <http://web.acdi-cida.gc.ca/pbas>. This is a password restricted site, so users will have to register (follow the links from the home page) before they can access the site.

### *The Meeting*

[Agenda](#)

[List of Participants](#)

[Concept Paper](#)

[Briefing Note on LENPA](#)

### *Opening Session*

[From Berlin and Tokyo to Washington](#) (presentation)

### *Plenary 1:*

[Building State Capacity in Africa](#) (paper and presentation)

### *Plenary 2*

[Systems Thinking and Its Relevance for Capacity Development](#) (paper and presentation)

[Promoting CD Under PBAs: A Conceptual Framework](#) (presentation)

### *Case Studies<sup>6</sup> used for thematic and sector working groups*

[Africa Forum](#) (paper and presentation)

[Bolivia Water](#) (paper and presentation)

[Ghana Multi-Donor Budget Support](#) (paper) (not presented at the forum)

[Ghana Water/ Decentralization](#) (paper and presentation)

[Honduras Chagas Disease Control](#) (paper and presentation)

[Honduras Education](#) (paper and presentation)

[Nepal Decentralization](#) (paper and presentation)

[Nicaragua Education](#) (paper and presentation)

[India Education](#) (paper and presentation)

[India Health](#) (paper and presentation)

[Senegal Health](#) (paper and presentation)

[South Africa Water](#) (paper and presentation)

[Tanzania Agriculture](#) (paper and presentation)

[Tanzania Education](#) (paper) (not presented at the forum)

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<sup>6</sup> Included here are all of the case studies submitted for the forum. As indicated, three of these were not actually presented at the time, due to the non-availability of the presenters.

[Timor Leste](#) (paper and presentation) (not presented at the forum)

[Uganda Water](#) (paper and presentation)

*Plenary 3 – CD for PFM and Procurement*

[CD in public financial management](#) (paper only, electronic version of slides missing at time of posting)

[CD in Procurement](#) (paper and presentation)

*[Open Space](#) (paper)*

*Briefing on the LenCD network (Learning Network on CD)*

[One pager and presentation](#)

[Presentation by Nils Boesen](#)

*Summary and Conclusion*

[Closing Presentation by Nils Boesen](#)

*Other*

[Report back to CIDA](#) and [Synthesis paper prepared for ECDPM](#) by R  al Lavergne (presentation and paper)

[Interim Report from ECDPM research project on capacity and performance](#) (paper)