

**Ministry of Foreign Affairs  
Danida**

# **Capacity Development Evaluation**

## **Step 4: Between Naivety and Cynicism**

### **A Pragmatic Ap- proach to Donor Sup- port for Public-Sector Capacity Development**

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## **ABBREVIATIONS**

CD	Capacity Development
DAC	Development Assistance Committee (OECD)
DfID	Department for International Development (UK Government)
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
LFA	Logical Framework Approach
MDG	Millennium Development Goals
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department (World Bank)
PRSP	Poverty Reduction Strategy Papers
RBM	Results-based management
ROACH	Results-oriented approach to capacity change
SWAps	Sector-wide approaches
SWOT	Strengths-Weaknesses-Opportunities-Threats (analysis)
TA	Technical assistance
UNDP	United Nations Development Programme
URA	Uganda Revenue Authority

## **Preface**

While capacity development support is an important element in the development assistance provided by Danida and other donors, it is generally recognised that the information about the results of this key type of assistance is limited.

To contribute to the insight both of Danida, other donors and development partners about capacity development support and its outcome, the Evaluation Department decided in 2002 to embark upon a large learning exercise within this field. The exercise has the ultimate objective of providing the basis for preparing of a set of guidelines for capacity development support.

Acknowledging the innovative nature and the difficulties of the endeavour, a step-by-step approach has been applied. Each step is reported in a separate working paper, of which the present is the fourth and synthesises the insight of the first three papers. The reports can all be found and ordered in printed form from [www.evaluation.dk](http://www.evaluation.dk) and include:

- Step 1: Contributions to an Analytical Framework, 2002.
- Step 2: Desk study of Danish Sector Programme Support and Mifresta Interventions, 2003.
- Step 3: Draft Methodology for Evaluation of Capacity Development, 2003.
- Step 4: Between Naivety and Cynicism: A Pragmatic Approach to Donor Support for Public-Sector Capacity Development, 2004.

A short version of the present report (step 4) is presently under preparation, and drawing on the preparatory work, a field-testing of the evaluation methodology is being carried out in Ghana. Both the short version and the Ghana evaluation report are expected to be published in early 2005.

In addition to the consultants, who have carried out the most important part of the work, many people have been involved in the exercise so far. From the very beginning Ministry of Foreign Affairs staff across departments and embassies, external resource persons, researchers and other donors have taken an interest in the work and have contributed generously with comments and suggestions. The Evaluation Department is grateful for the many contributions and looks forward to the continued discussion of how best to use the insights gained to improve capacity development assistance.

Danida's Evaluation Department

## Foreword

In the spring of 2002, Danida asked the Centre for Development Research (now part of the Danish Institute for International Studies) to prepare a methodology for evaluation of the impact of Danish development assistance on capacity-building and institutional change within the framework of sector programme support in partner countries. This work involved, among other things, an initial literature review of current understandings of:

- Capacity development (CD) in the context of public sector reforms
- The emerging political and institutional framework for aid to CD
- Evaluation methods for CD

The initial work provided useful insights into CD, donor support for CD through sector programmes and public-sector reform initiatives, and applicable evaluation methods for such interventions. However, it also demonstrated the complexity of these issues, and it was therefore decided to produce the present report with the objective of providing a more coherent and accessible presentation of some of these issues.

The report is by default mostly based on the contributions of other authors, both practitioners and researchers. It has benefited from the many valuable comments from Danida staff, consultant and research colleagues, and feedback during public presentations of key messages. We are very grateful for the many committed contributions demonstrating that capacity development is taken very seriously and that its inherent difficulty is seen as a challenge to be overcome rather than an obstacle to progress.

This said, the viewpoints, errors and omissions in this paper are, of course, exclusively ours.

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Copenhagen  
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## **1. Public-Sector Capacity Development: From the Desirable to the Possible**

This paper deals with public-sector capacity development (CD) in poor countries. It addresses two central questions. What capacity improvements (small or large) may be possible under present and foreseeable conditions in poor countries? Moreover, if opportunities for capacity development exist, what can outsiders such as donors do to support and encourage them? There are several reasons for this particular focus.

The ambitions and aspirations of the populations and governments of poor countries for development cannot be met without significant and broad-based enhancements of the capacities of the public sector, the private sector and civil society alike. Capacity enhancements in the public sector – the focus of this paper – are often regarded as being crucial for achieving these aspirations.

To this should be added the renewed demands on public-sector capacity arising from the increased focus on poverty alleviation as expressed in the Millennium Development Goals (MDG) and the targets of the Poverty Reduction Strategy Papers (PRSP). Mainstream acceptance of the multi-dimensional character of poverty also underlines the demands on public-sector capacity (Sen, 1999; UNDP, 2002).<sup>1</sup> Poverty is not just about a lack of income: it is also about powerlessness, and thus changes in power relations; and about vulnerability and therefore the security of assets, law and order and justice. Here the public sector has important roles to play.

Finally, the role of the public sector itself is changing. The direct involvement of central governments in economic production and service delivery has been reduced in many countries. The public-sector reforms of the last fifteen years have aimed to strengthen the role of the state as a regulator of the private sector, a promoter of civil society activities and a provider of core services through executive agencies and local government.

Capacity enhancement of the public sector in poor countries has therefore become both increasingly needed and desired. Unfortunately, it has often not been possible to achieve what is so needed and desired. Donors have tried to deal with seemingly obvious capacity problems in specific organisations by supporting to changes in their structures, staff training, the introduction of new procedures, and supplying equipment and technical assistance (TA). Often this has not had much impact. Symptoms have been taken for causes. The medicine prescribed has mostly consisted of mechanical blueprint approaches aimed at “creating islands of success in seas of failure” (Boesen et al. 2003a; Hilderbrand and Grindle, 1994; Brinkerhoff, 1994; Schacter, 2000b). There is increasing recognition that such piecemeal interventions will not in themselves bring about the broader, systemic capacity development of the public sector that is a central ingredient in combating poverty.

This insight has also helped donors and recipient governments to change gradually from project-focused development assistance to programmatic approaches such as sector-wide approaches (SWAs) and budgetary aid. These approaches – which emphasise country ownership – are also expected to counteract the negative effects that fragmented, project-organised donor assistance has exerted on domestic organisational capacity.

These programmatic approaches are expected to have positive impacts on capacity, but they do not on their own address the narrower challenges linked to the capacity development issue: How can capacity development and change in public-sector organisations in poor countries be stimulated? What are the alternatives to traditional practices that have not delivered convincing, lasting results?

In this paper, we present what we call a “results-oriented approach to capacity change” (ROACH). It fits well with the programmatic aid approaches (SWAs and budgetary aid linked to overall poverty-reduction strategies) currently being adopted by most development agencies. Such approaches focus strongly on ownership as a condition for success. Our approach is based on the key assumption that organisational capacity development and change are overwhelmingly a domestic matter, enabled or constrained mainly by a broad range of endogenous factors (we disregard structural constraints arising from links to the global economy). This key assumption is strongly supported by evidence. It implies that efforts towards capacity development must focus on opportunities for change that take account of significant domestic factors and have the potential to introduce gradual systemic change, rather than haphazardly creating unsustainable islands of improved performance. The role of donors must, as in SWAs, change from one of implementers to one of engaged partners able to stimulate change without trying to enforce it.

This requires that donors acquire a better and more intimate context-specific knowledge of capacity development opportunities and constraints. Hopefully, the approach we are presenting here may serve as a useful conceptual framework for continued investigation and dialogue between domestic and international partners concerning the conditions for change in specific situations. This requires:

- looking for *possible* rather than *desirable* capacity development under present and foreseeable conditions in any given country.
- considering *a much wider range of factors and issues* that determine actual capacity and performance than those that are immediately observable in apparently poorly performing individual organisations.
- analysing *if and how outsiders such as donors can support and encourage capacity opportunities* – provided that the preceding analytical work indicates that such opportunities exist.

We thus argue strongly against donor support to CD through short-term technical fixes in individual organisations. Such approaches are often naïve and poorly informed. But we also argue strongly against falling into the opposite, cynical trap,

where CD is deemed impossible because of “politics” disparaged as implying opportunism, clientelism and corruption, or because of “the nature” of the state and society in poor countries. Instead, we advocate a pragmatic, patient, systemic approach to CD and CD support which focuses on change in outputs from organisations and organisational networks.

Our approach does not contain much that is very new. Contrary to most of the literature on CD in developing countries, we are explicitly attempting to link our approaches and use of concepts to well-established mainstream literature dealing with organisational development, management, political science, sociology and institutional economics. These disciplines have developed insights of a general nature that the development community cannot afford to ignore if it wishes to enhance the efficiency and effectiveness of support for capacity development.

The main purpose of this paper is therefore to help practitioners in developing countries and donor organisations work with capacity-development issues in an analytically informed and operationally relevant manner, especially in the context of sector-wide or programmatic approaches. To achieve this, we first provide an overview of when change is likely to happen (Chapter 2), and of our conceptual framework (Chapter 3). Then we detail:

- Why specific *outputs* from an organisation provide a key initial focus for assessing existing capacities and future possibilities for change (Chapter 4).
- How the environment or *context* in which organisations are embedded influences capacity and constrains or promotes change options (Chapter 5).
- How a *network perspective* is often needed to grasp the inter-dependencies between public-sector organisations (Chapter 6).
- How the *organisational capacity* of specific organisations or sub-units can be analysed from *various perspectives*, including ones that concentrate on what we call the “functional-rational” aspects of organisations, as well as on the “political” aspects (Chapter 7).
- How the provision of *inputs* – staff, funds, technology, knowledge – is shaping organisational capacity (Chapter 8).
- Having discussed these “building-blocks” of our conceptual model, we return, in Chapter 9, to the theme of change. We discuss not only when change is feasible, but also how change processes may be stimulated by domestic and external stakeholders.
- Finally, Chapter 10 deals with some of the dilemmas and trade-offs that politicians, managers and professionals must deal with in and around both public organisations in partner countries and donor agencies.

## **2. When Organisational Capacity Change Happens – And When It Does Not**

When does *sustainable capacity development* happen in organisations? Take a tour of ministry offices around the world, and you will see computers in use everywhere – there were very few around 25 years ago. Access to the Internet is also part of the life of central public offices in most countries, as well as cell phones for high-level staff. Then visit the think tanks and universities in poor countries that deal with public-sector issues. There may still be only one or two teams outside the central bank and the ministry of finance, which analyse and debate macro-economic and fiscal policies – but twenty years ago there were hardly any.

Move closer to the ground, in the courts, schools, hospitals or prisons, and one finds that positive organisational capacity change over the years is unfortunately less visible in many poor countries. There are many problems with, for example, processing times and the observance of due process in courts, educational attainment in schools, recovery rates in hospitals and living conditions in prisons. Yet in most countries, more children are going to school today than thirty to forty years ago.

So, organisational capacity change does happen. Most often it is slow and incremental, in both developing and developed countries. But occasionally capacity changes are much more dramatic. In certain cases governments, civil society and the private sector can ‘unleash’ capacity by doing things in new ways or by responding to new opportunities or emerging crises, as the examples in Boxes 1 and 2 show.

### **Box 1. Turn-around in Dar es Salaam**

Dar es Salaam City Council had been plagued by corruption, mismanagement and incompetence for years. In 1996 the government decided to remove the democratically elected council and replace it with a state-commissioner and a small group of assistants. This move was perhaps not strictly legal, but within two years revenue collection had improved dramatically. This paved the way for further conspicuous improvements. Garbage was collected in the most congested areas, busy streets were swept, market areas and bus stations rehabilitated. Even some secondary school classrooms were constructed (Ole Therkildsen, informal interviews).

### **Box 2. Improvement and stagnation in Uganda**

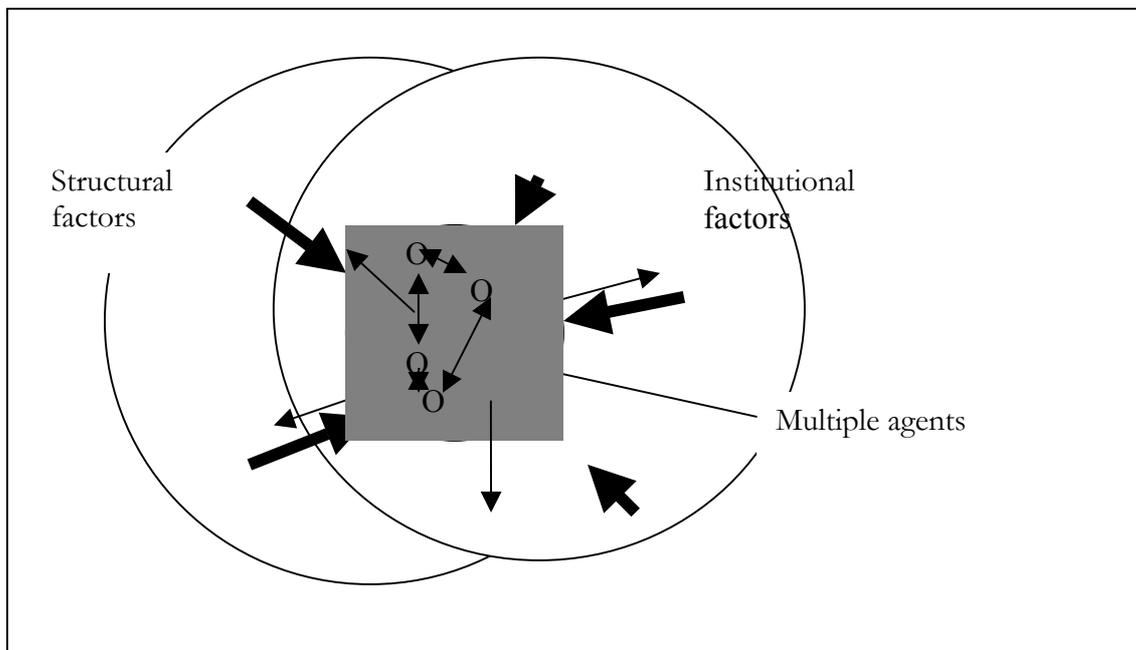
Capacity was built at speed when the Uganda Revenue Authority (URA), an executive agency, was established in 1991. This led to significant improvements in revenue collection over the following five years, due to URA’s greater autonomy, well-paid staff, political support and donor backing. “We will soon go to Paris as donors, not as beggars”, as the chairman of the URA board proudly stated in 1995 before the annual meeting of aid agencies’ recipient countries. Since 1996, however, URA’s performance has stagnated as a result of corruption, interference from key political elites and its own declining legitimacy in general – some of the very problems that plagued tax administration prior to its establishment (Ther-

kildsen, 2004a).

Change in organisations – in technology, in the quantity and quality of service delivery and outputs, as well as in outcomes – often seems “just to happen”. Change occurs through recurrent modifications of existing capacities that may result in either the slow deterioration of capacity (due to the erosion of the real purchasing power of staff salaries through inflation) or its slow improvement (because altruistic front-line staff find ways of gradually improving working practices). In other instances, it seems evident that particular decisions and actions by specific individuals have caused the change in capacity.

But why does capacity change, whether incrementally or in apparent leaps? *Drivers of change* may be structural (e.g. changes in economic and social structures) or institutional (changes in norms and behaviour). And, most visibly, they may be *agents*, whether individuals, groups or organisations (Duncan, 2003; Hay, 2002). Often, political and administrative elites are important drivers of change. However, it is crucial to acknowledge that *agents are embedded in institutional and structural contexts that influence their actions*. Furthermore, *agents are influenced by the actions of other agents*. And finally, *agents act according to their own preferences*, which change over time. The relationship between agents, institutions and structures is illustrated in Figure 1.

**Figure 1: The shaping of organisational capacity change by structures, institutions, and multiple agents**



These three sets of factors – structures, institutions and agents – all interact dynamically and interdependently. It is therefore little wonder that the speed, direction, scope and probability of organisational capacity change are hard to predict, and even harder to control. If the perspective is broadened further from the individual organisation to a particular sector, or to the entire public sector, it is obvious that *broad*

*and sustained change is the result of complex processes that cannot be explained with reference to a few determining factors, nor created by means of a standard recipe across time, sectors and countries.<sup>2</sup>*

Fortunately, empirical evidence indicates that certain factors influence whether organisational capacity change will be successful or not. Box 3 focuses on enabling factors that are closest to the agents within and close to an organisation:

**Box 3. Most capacity improvements in organisations occurred where several of the following conditions prevailed:**

- ✓ Strong demand-side pressures for improvements are exerted from outside the organisation (from clients/customers, political owners, supervisory bodies, competitors or quasi-competitors etc.).
- ✓ Top management provides visible leadership for change, promotes a clear sense of mission, encourages participation, establishes explicit expectations about performance, and rewards well-performing staff (recognition, pay, promotion based on merit, etc).
- ✓ Change is approached in an integrated manner, stimulating fertilisation and exchange across the boundaries of segments, units and professions.
- ✓ A critical mass of staff members, including front-line staff, are ultimately involved in and committed to the change process, being motivated to change existing ways of doing things.
- ✓ Organisational innovations are embraced, tested and adapted (e.g. better operational and strategic planning, improved mechanisms for beneficiary involvement, better monitoring, etc.).
- ✓ Quick wins that deepen commitment for change become visible early in the process.
- ✓ The scope of change (type and depth) is commensurate with internal and external commitment, as well as with the organisation's capacity to manage the change process.
- ✓ Resources for developing capacities and implementing change (e.g. time dedicated by key staff members; budgets for training, facilitation, information dissemination, etc.) are prioritised; daily business activities do not override change objectives.
- ✓ Top management and change agents manage the change process strategically and proactively, including both internal and external aspects of the process (communication, sequencing, timing, feedback loops, celebration of victories, recognition of problems etc.).

Sources: Boesen et al., 2002; Grindle, 1997; Horton, 2002; Nunberg and Nellis, 1995; Tandler, 1989; Kanter, 1983; Senge, 1990; Robbins and Finley, 1997.<sup>3</sup>

Box 4 summarises a list of frequent constraining factors, which are mostly but not entirely of a broader structural and institutional nature.

When more of the factors listed in Box 3 are absent, and when more of those in Box 4 are present, organisational capacity development is less likely to be successful. *Clear commitment to and leadership of change from those in charge is, perhaps, the single most important factor* for capacity development efforts to succeed. This is emphasised in virtually all the literature, both on developing and developed countries, and on public- and private sector organisations. But leadership is only a necessary, not in itself a sufficient condition for sustainable change to take place. The evidence also seems to confirm that *capacity development is successful when clear attention is given to performance and results*. Finally, the overall *balance of incentives and power* must also tilt towards change. Of course, no sensible leader will attempt to implement major changes if she is sure of defeat. We shall be discussing the issue of incentives, power and politics in and around organisations throughout this paper. This is a theme that is often severely neglected in the development assistance literature (Lusthaus et al., 1999), and it is one that creates dilemmas for donors, as discussed in Chapter 10.

**Box 4. Conditions under which capacity development in individual public-sector organisations has proved difficult**

- ✓ Civil unrest and conflicts.
- ✓ An unstable macro-economic situation, high inflation, poor fiscal management, rapidly decreasing revenues.
- ✓ Fragmented government, with poor overall public financial management capacity.
- ✓ Non-credible and/or rapidly changing government policies, overload of reform and change initiatives.
- ✓ Unpredictable, unbalanced or inflexible funding and staffing.
- ✓ Salary levels incompatible with expectations of public officials regarding living standards; history of flight of qualified staff to other countries, private-sector or donor-funded positions; high rotation levels in key positions; weak middle layers of competence between a few highly qualified staff and the majority of staff with low skill levels.
- ✓ Entrenched corruption (political and administrative) in core government organisations (president's office, ministry of finance, civil service commission, central ministries, audit agencies, the judiciary).
- ✓ Entrenched and widespread clientelism and patrimonialism, weakening the pursuit of organisations' formal tasks.
- ✓ Intrusive donor involvement in key national programmes (by-passing recipient organisations and institutions, forcing/buying policy/structural changes – which are often frequent – distorting resource allocations and incentives)
- ✓ Substantial dependence on fragmented and unpredictable donor support.
- ✓ Segmented and compartmentalised organisations, where centralism, strict hierarchy, authoritarian management and/or excessive power struggles impede information and ideas reaching decision-makers.
- ✓ Only formal commitment to a performance-oriented culture, lack of sanctions for non-performance, of rewards for performance (material or non-material).

Sources: Boesen et al.,2002; Grindle and Hilderbrand, 1995; Lopes and Theisohn, 2003, 42; Manning, 2001; Marquette, 2003; Mkandawire and Soludo, 1999; World Bank, 2003a.

We suggest that organisational capacity-change processes should be analysed from two supplementary perspectives, each having two dimensions (see Figure 2). The first perspective looks at whether change processes are focusing on *external* or *internal* factors. Organisational capacity-change processes (which, of course, are ultimately inside the organisation; see further, Chapters 6, 7) can be driven by intentional or unintentional modifications of important specific capacity-shaping factors that are *external* to the organisation (e.g., a more effective auditor-general’s office may force change in internal accounting practices in, say, the customs authorities; or teachers’ performances may be improved through the setting up of a parents’ committee). Changes can also be produced by directly modifying *internal* organisational factors (e.g. the introduction of better planning procedures, of training courses for teachers). Direct modifications of internal factors in the auditor’s office may have made this more effective – and a public outcry may have driven this change process in the auditor’s office – which again may drive change in the customs authorities. In any analysis of change processes, it is thus necessary to consider both external and internal change drivers, as well as their causal relationships.

The second perspective includes, first, a dimension of change focusing on how what we call “functional-rational” capacity-shaping factors are modified – e.g. optimisation of work flows to reduce processing time, new quality-control mechanisms – and, secondly, a dimension of change which is overwhelmingly perceived as changing what we call “political” capacity-shaping factors, related to power and interest issues both within and outside the organisation. For example, a new quality-control unit may easily be perceived to be concentrating a lot of power within itself which was previously in the hands of line managers, and be resisted as a result. The two dimensions – the “functional-rational” and the “political” – overlap. Any organisation needs an adequate power and authority structure to function, and multiple and diverging interests are also part of organisational life. How these issues are dealt with both constitutes capacity and influences capacity change.

**Figure 2: Four dimensions of organisational change**

	<b>Focus on “functional-rational” dimension</b>	<b>Focus on “political” dimension</b>
Focus on organisation-internal factors	Focus on changes in task-and-work system in the organisation	Focus on changes in distribution of power and authority, conflicts, and the pursuit of different interests
Focus on organisation-external factors	Focus on how changes in external factors and incentives will affect the task-and-work-system dimensions of organisational capacity	Focus on how changes in external factors and incentives will affect the distribution of power and authority, conflicts, and the pursuit of different interests in the organisation

These four dimensions serve as a simplified reminder of key aspects to look for when analysing organisations, why they are changing or not changing, and if so, how. In addition to the analytical value, these dimensions also serve to determine the possible complementary focus of change initiatives, whether supported by donors or not: is it more likely that change in the public sector will succeed if the “demand side” outside the organisation is strengthened, or is it enough to focus on the “supply side” by trying to improve organisations from within without affecting the forces pulling them from the outside? And, if public-sector organisations serve not only the public, but also other interests, can the capacity to serve the public interest be enhanced without changes in the power distribution inside or around an organisation?

In Chapter 9, we shall discuss in more detail how CD may happen in situations where the enabling conditions outweigh the constraints, and we shall also deal with important issues such as the sequencing and timing of change, as well as whether donors can stimulate CD processes, and how.

### 3. The Results-Oriented Approach to Capacity Change: An Overview

To be successful, capacity development efforts must, of course, be targeted on those factors that are most critical in enhancing performance. This requires a detailed understanding of what organisational capacity is, what it is good for, and how it changes. The results-oriented approach to capacity change (ROACH), presented in the following chapters, is a helpful tool for thinking analytically and operationally about capacity and capacity development. Below, we shall briefly present the three cornerstones of ROACH:<sup>4</sup>

- Organisations can conveniently be understood and analysed as *open systems*.
- Both the “*functional-rational*” and “*political*” *perspectives* must be applied in understanding how organisational capacity is shaped and reshaped over time.
- *A focus on specific organisational outputs* (services, products) is useful in understanding organisations and their changes, as well as in adopting a relevant analytical vantage point.

First, an explanation of our use of the term *capacity* in this paper is required. We use ‘capacity’ to denote *the ability of an organisation to produce appropriate outputs*. This definition also applies to a sub-unit of an organisation (e.g. an accounting section producing reports and balance sheets) or a network of organisations (e.g. the ministry of health or finance, regional authorities and public hospitals involved in producing curative hospital-based health services). We thus use an exclusive *organisational* focus in which organisational capacity is broken down into elements. When assembled and interacting – as with the different parts of a car engine – they constitute a capacity, including when the engine is not actually running. When it is turned on, we also talk about *performance* in respect of producing outputs.

This use of “capacity” differs significantly from currently popular definitions of the term. UNDP’s definition is representative of many of these. It defines capacity as “the ability of people, institutions and societies to perform functions, solve problems and set and achieve objectives” (Fukuda-Parr et al., 2002, 8; Lopes and Theiso, 2003, 22). Such a definition is difficult to distinguish from the general notion of development (Moore, 1995), and a meaningful operational specification of capacity is virtually impossible when the concept is used so broadly.

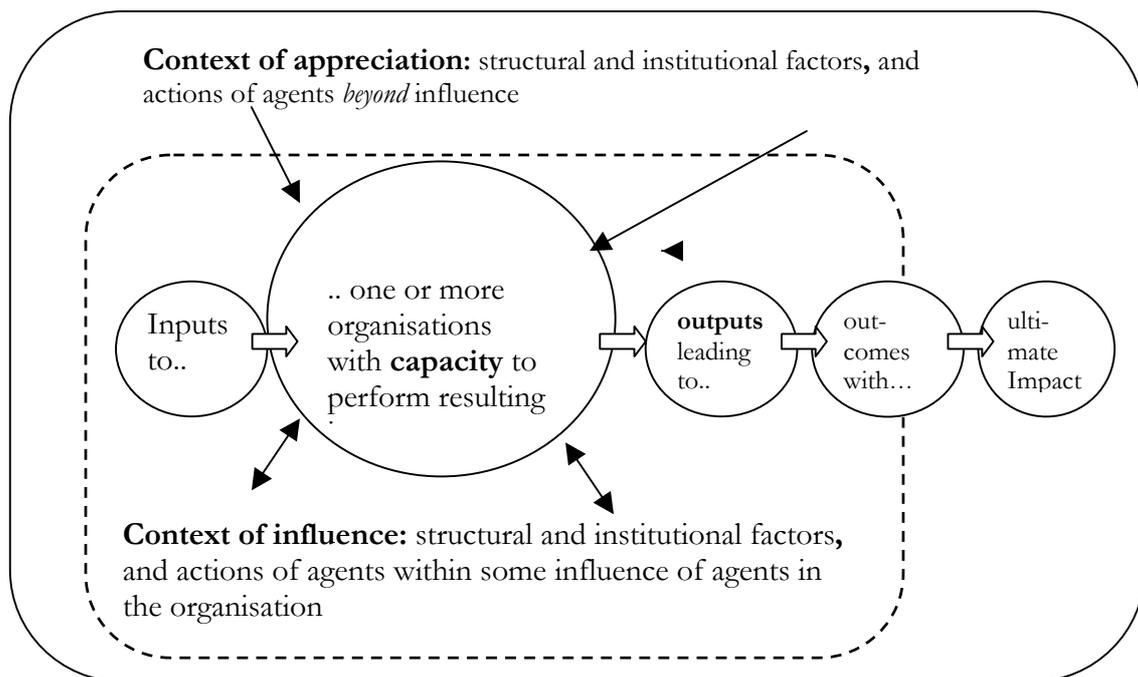
#### 3.1 Organisations as Open Systems

Figure 3 illustrates the open-systems approach. Subsequent chapters provide more details of each particular element (outputs, context, organisational networks, organisational capacity and inputs).

Any organisation (or a unit within an organisation, or a group or network of organisations) is viewed as a system consisting of interacting and interdependent elements embedded in a context from which the organisation obtains various inputs, processes these inputs and produces outputs. Organisational survival and growth depend

on adapting to and influencing the changing environment, as well as on producing outputs that are valued by external stakeholders. For market-based organisations, this means producing outputs which can be sold at a price that at least covers costs, while public-sector institutions must in principle produce services which satisfy those whose role it is to decide the allocation of the public budget between competing priorities.

**Figure 3: Basic analytical framework: organisation(s) as open system(s)**



The open-systems perspective on organisations has evolved over forty years. It is analytically useful for developing a comprehensive view of the organisation embedded in its context. Equally importantly, it forces analysts, managers and agents of change to look both inside and outside organisational boundaries to identify sites of capacity constraints and potentials for improvement. This is particularly useful for donors, who have acted as if organisations could be understood and transformed with a fairly exclusive focus on the internal elements alone (Boesen et al., 2003a; Brinkerhoff, 1994; Grindle and Hilderbrand, 1994 and 1995; Hirschmann, 1993; Schacter, 2000b; Tendler, 1997).

To operationalise the open-system perspective and structure the analytical thinking, we use a results chain that is fairly similar to that applied by most donors (e.g., European Commission, 2002). The inputs-organisational capacity/performance-outputs-outcome-impact chain shares some features with the Logical Framework Approach (LFA). However, the open-systems approach pays much more attention to the dynamics and interdependence of the organisation and its context, as well as aiming to obtain a more detailed insight into both context and capacity factors.

Therefore, capacity and performance need to be broken down into their respective elements. Organisational theory provides several ways of doing this. We have chosen a model which focuses on purposes and strategy; leadership and management; structures, procedures and work processes; internal relationships and interactions; incentives and motivation. The important point is simply to use a framework which is fairly comprehensive, has a proven track record and is familiar to the analyst. Other choices than ours are perfectly possible.

Finally, to complete our description of the results chain, we should note that its left-hand side concerns inputs. Straightforwardly, these consist of funds, staff, technology, raw materials, services and knowledge acquired outside the organisation. Obviously, their supply also influences capacity and capacity change options.

By combining the open-systems perspective with the results chain, we obtain a framework for dealing with the interactions between an organisation and its context. Seen from the vantage point of the executive head of an organisation, she has highly varying degrees of control or influence of various factors inside and outside the organisation's boundaries. It may be tempting to assume that a manager has full control of organisation-internal factors such as structures, procedures and internal work processes, decisions concerning organisational strategies, management, staff motivation, etc. But that is not even remotely the case, especially in public-sector organisations: labour unions may have a strong voice about pay issues; work processes may be formally codified in regulations that apply to the entire public sector; and there may be a tradition of "how things are done here" that is untouchable in the short term. Staff may conceal information, or leak it to outsiders. Managers do not even control all inputs. Some staff, for example, are often hired, promoted or transferred across ministries, agencies or units within agencies by a central civil service authority without the unit manager being asked first. Many other examples of limiting managers' effective "span of control" inside an organisation could be given.

While the Logical Framework Approach assumes that factors inside the (project) organisation are "fully controlled" by its managers, there is no such assumption with the open-systems approach. On the contrary, the latter is based on the proposition that the boundaries between an organisation and its environment are permeable and fluid. Indeed, core managerial functions that are well known in every sub-unit of an organisation include managing what crosses organisational boundaries and trying to define where the boundary is: what information should be passed to others, and what do we want to keep to ourselves? Where do our tasks start, and where do they stop? How do we coordinate with other units or organisations? How do we ensure that employees stay loyal to the organisation?

Outside the boundaries of the organisation, structural and institutional factors will influence it, as will the actions of other agents. Looking out from the inside, we simply divide the context of the organisation into two parts –a familiar aspect of approaches to stakeholder analyses (Honadle and Cooper, 1989; Grindle and Hilderbrand, 1994; Danida, 1996). One part of the context is labelled "*influenceable*."

This denotes that the focal organisation itself may influence other agents (organisations, individuals and stakeholders). Indeed, actively seeking to influence external agents is normally perceived to be a key managerial task, and it may even be supported by specialists. The much-condemned spin-doctors in western democracies do exactly this kind of work, for example. The other segment of the context is labelled “*appreciated*.” This means that the factors and pressures located here must be taken into account by the focal organisation for it to succeed, even though its management and staff can do little to influence it in the shorter term (e.g., a fall in world market prices, social or gender inequality, decisions taken in a donor country to reduce development assistance).

### **3.2 The “Functional-Rational” and “Political” Dimensions of Organisations**

The features of the open-systems approach may not seem particularly controversial. Indeed, the open-systems approach may be interpreted as if organisations only seek to meet officially stated goals, and that these are fairly specific; that staff and external stakeholders agree on these goals and are motivated to pursue them; and that formal rules, structures and processes *inside* the organisation are those that determine performance. From this point of view, poor performance is interpreted as “a lack of functional rationality”. This is often translated into a lack of proper planning, of job-descriptions, of an appropriate structure, of proper workflows, of well-structured management meetings or of specific skills – in short, a lack of everything that can be considered the hallmark of a healthy, efficient organisation. This is the grand tradition of scientific management, supplemented from the 1930s with the understanding that good human-relations management is also important for performance.

Unfortunately, this point of view has far too often been used as an argument for capacity development efforts by donors and recipient governments. This focus on immediately observable deficiencies inside the organisation has several advantages. It homes in on those inputs for change that money can buy (e.g., consultants, computers, training courses). It is largely uncontroversial and is not technically difficult, since models and best practice for the particular kind of organisation can be copied from other, more “advanced” countries.

But, as experience has shown, this approach is also normally ineffective on its own. It overlooks several thorny issues, such as relations of power in organisations, the pursuit of other interests than those related to accomplishment of the particular task, and conflicts inside or outside the organisation over goals, mandates and influence. The capturing of organisational resources for personal benefit is also ignored. Informal processes and structures, and informal relationships among key stakeholders, go unnoticed (see Box 5). The influence of external factors and agents on organisations is underplayed. Finally, the focus on perceived deficiencies overlooks what actually works in the organisation and often ends up formulating goals for performance which are unrelated to present capacity or to achieving a gradual, sustained increase in this capacity.

### **Box 5. Fast track to reform: Minas Gerais**

In January 1991, just after assuming office, the new minister of education in the Brazilian state of Minas Gerais announced a sweeping reform to improve the quality of education. Firmly supported by the state governor, the reform provided for school-based decision-making relating to administration, finance and teaching policy – and, most controversially, the selection of school directors. These had traditionally been part of the patronage machinery of local politics. The elements of the reform had been planned before the elections, and the new minister had consistently advocated increased school autonomy as the answer to the failings of the existing system. The structure of interest groups was pluralistic, and a large number of professional and community organisations were invited to discuss school autonomy. There was, however, little agreement across these organisations about which aspects of the reform advanced their own interests and which did not. This provided the reformers with considerable room to manoeuvre in obtaining approval for their own policy, and in particular to play different interests off against one another. The law enabling the reform was approved in less than six months. Though the reform was subsequently contested and partially reversed, it led to rapid and comprehensive change, which had a positive impact on repetition and completion rates (Grindle, 2004).

### **Box 6. An informal organisation at work**

To ensure the availability of essential drugs, a donor-funded autonomous unit was created, ring-fenced from what were perceived to be the threats of corruption stemming from low salaries, low morale and political meddling in the civil service. The unit was responsible to the national Red Cross Society. A dedicated, competent and highly respected person was appointed as manager.

Soon, however, it became evident that many drugs were turning up on the private market. A careful analysis of procedures and processes was conducted to find out how this could have happened. However, the system and procedures for distribution seemed to be consistent. Compliance was documented. To avoid future illicit siphoning-off of drugs, additional supervision and spot checks were introduced.

Yet drugs continued to show up in the markets. Only after several years did the donor representative supervising the programme realise that an assistant to the executive director was a relative of a politically very influential family, and that an elaborate informal network existed both inside and outside the unit. This informal network, which also included staff at health posts and in hospitals, had ensured that all formal procedures appeared to have been followed (Nils Boesen, informal interviews).

Therefore, the “functional-rational” dimension of organisational analysis, which often adopts a rather mechanical view of how to optimise work tasks and performance, must be supplemented by what we are lumping together under the label of the

“political” dimension of organisations.<sup>5</sup> Box 7 below illustrates the different foci of these two dimensions.

**Box 7. The “functional-rational” and “political” dimensions of organisations in the open-systems approach**

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

Source: Modified from Mastenbroek (1995).

It is important to stress that *both* dimensions are needed in order to obtain a better understanding of existing organisational capacity and the opportunities for enhancing it. Organisations cannot function without power being exerted, nor without a dose of instrumental order and organisational rationality. Likewise, organisations cannot function without informal norms and rules interacting with formal ones.

To sum up, organisations are not well-oiled machines (readers may simply like to reflect on their own organisations to find evidence for this claim). Computerisation, for example, may be required to improve a work process in order to enhance outputs. However, the decision to computerise may be motivated by an IT section pushing for influence in the organisation or for an increasing share of the budget. The decision could also be made by a procurement section pursuing rent-seeking opportunities. In a health-care system, a policy of building more hospitals may be justified in terms of the need for curative care. Construction, however, also provides possibilities for corruption, which may sometimes be the real motivation for the

policy. Similarly, senior staff may push for more systematic information and interaction between the office and front-line staff so as to improve outputs. They may do this because high-level politicians and civil servants, to whom they are closely related, regard the increased output in that organisation as important for their own chances of re-election. Of course, politicians and bureaucrats may both be motivated simultaneously by visions of nation-building.

The “politics of bureaucracy” is therefore an inseparable element of life in public-sector organisations. Incentives both to compete and to cooperate are present between public-sector organisations as well as inside single organisations. We agree with Lusthaus et al. (1999) that failing to grasp the politics of power and the power of politics – thus being unable to take these issues into account in an informed manner – is one of the most obvious weaknesses in current donor approaches to CD and CD support.

### **3.3 Results Orientation**

A focus on outputs or results orientation is the third pillar of our approach. This follows from our definition of “capacity”, that is, the ability of an organisation to produce appropriate outputs. We shall look more closely at public-sector outputs in the following chapter. Here we consider why a results orientation is essential for CD.

First, considering outputs enables us to establish a relevant analytical vantage point. The accounts department, for example, is the primary organisation responsible for producing monthly account statements. This department is therefore our analytical vantage point if we are interested in such outputs. But, in adopting the open systems approach to analysing the capacity of that department, we would soon be forced to examine the inputs (“raw materials”) it requires from other units. Are they delivered complete and on time? If not, has the department any means of its own to obtain these inputs, or can the department use its influence to seek help elsewhere by using its relationship with a powerful individual or unit inside the organisation where it belongs, or outside it?

If, instead, we look at the environmental regulation of pollution arising from animal husbandry, this may require a legal framework, a permit system, reporting procedures, supervision schedules and enforcement activities. Delivering this set of outputs may involve central ministries of the environment and agriculture, county administrations or local governments, and farmers’ associations. As a result, this network of organisations becomes our analytical vantage point. It is the output focus which enables us to decide which analytical vantage point to use.

Secondly, we focus initially on organisational outputs, rather than on outcomes or impact (cf. the logical chain in Figure 3). In doing so, we differ from the recent general tendency in programmatic approaches to development assistance in which donors tend to concentrate on the achievement of outcomes and impacts, especially

for poor people. This focus on outcomes and impacts makes sense both because this is ultimately the purpose of development aid, and because donors are now seeking to remove themselves from the micro-management of traditional project aid, which has not proved effective.

Yet this focus on outcomes and impacts is not helpful when dealing with CD in public organisations. In dealing with CD, we are by definition much closer to how and what the organisations produce. And the outputs are largely the result of the efforts of the organisation itself (or of the organisational network). On the other hand, it is difficult, and sometimes impossible, to attribute changes in outcomes and impacts to an organisation's own efforts or to donor support for CD, because other factors also influence outcomes and impact. For example, a primary school can enhance its capacity to supply better quality teaching (an output). It can do much less to ensure that girls attend school and therefore that they graduate (an outcome). It can do even less to ensure employment for the girls when they leave school (although this may be an important rationale for government and donor support for primary education). However, CD initiatives in an organisation should visibly influence the outputs of that organisation. Hence our focus on outputs in the context of CD, which, as we explain below, is not a general recommendation for more sophisticated results-based management approaches.

An overview of the key concepts behind the results-oriented approach to capacity change will be provided in the following. Each of the subsequent chapters will focus on one element of the model.

#### 4. The Entry Point: Outputs as They Were, Are and Should Become

In Section 3.3 above, we argued that an output focus is important for CD because i) it defines a vantage point for dialogue and analysis; and ii) outputs are largely the effect of the efforts of an organisation, while outcomes are not. In the following, we shall introduce other arguments, as well as looking more closely at what public-sector outputs are and how they can be distinguished from outcomes and impacts. However, we also warn against excessive or naïve faith in the currently very popular concept of results-based management.

##### 4.1 The Importance of an Output Focus

At least in theory, donors have comprehensively embraced results-based management (RBM). This approach has a strong focus on outputs, outcomes and impacts, and is prominent in overall donor policies, such as the Comprehensive Development Framework and PRSPs. But what is RBM more precisely? It has become a fundamental pillar of what is labelled “New Public Management,” which swept over the OECD countries in the 1990s. It has been embodied most clearly in public-sector reforms in New Zealand, Britain and the United States. These reforms included, in various ways, a focus on performance issues and on achieving results; the devolution of management authority; and an orientation towards customer needs and preferences (“responsive services”), together with an emphasis on participation, teamwork and other “modern” management practices (Binnendijk, 2000; Schick, 1998).<sup>6</sup> RBM thus prescribes *how* public-sector organisations can become effective and efficient. On the other hand, it does not prescribe *what* public organisations should produce, a theme we return to in Chapter 5. New Public Management does, however, imply a search for a less resource-demanding state (cf. Hood and Jackson, 1991).

Our focus on a results-orientation does *not* imply the full battery of performance measurement, performance-based payment schemes, or elaborate and sophisticated indicator systems. Nor does it necessarily imply the setting up front of narrow, specific performance or output targets. We recognise the potential usefulness of the general RBM approach, but for our purpose, namely capacity development, we are adopting *a much more modest initial stance*, simply asking actors to focus attention on the results of their efforts!

Among the outputs of public-sector institutions could, for example, be the provision of primary health services; legal drafts and regulations presented to parliament; inspections and audits of public organisations; revenue mobilisation; and public information campaigns to combat HIV/AIDS. At the sub-unit level of an organisation, outputs might include monthly statements of accounts, curricula, medicine distribution, the timely payment of salaries or quarterly action plans.

While the narrow focus on the supply side is relevant for *capacity development*, the relevance of supply to demand is, of course, essential in the broader *developmental* context of defining which outputs the public sector should produce. So is concern about the ultimate effect (impact) on those “consuming” the public goods and services. In our definition of capacity, therefore, although we stress the importance of “appropriate outputs”, we abstain from entering into the broader discussion of how and by whom appropriateness should be defined, since this is as much a political as a technical issue. How far should user demand determine service supply, for example, thus simulating market mechanisms and in principle making central sector planning superfluous? How far, conversely, should supply-led service provision determined through representative democracy be at the forefront of ensuring equity in access to services? Such discussions about how appropriateness should be defined and what outputs (services, products) the public sector should deliver are at the core of any discussion about development as such, as well as about the political trade-offs that are inherent in development. In this study, we are focusing much more narrowly on CD in public-sector organisations. This implies that we recognise the importance of appropriateness without involving ourselves in the debate over it.

At the moment, a results orientation is particularly important in relation to CD because donors have recognised their excessive attention to inputs in the past, particularly with respect to training and technical assistance (Forss et al., 1988; Buyck, 1991; Berg, 1993; OED/World Bank, 1996; Boesen, 2001; Fukuda-Parr et al., 2003; Moore, 1995). It is high time that government organisations under pressure to develop their capacity, as well as donors supporting such efforts, look for the specific results of such endeavours. The first place to look is for changes in the outputs of those organisations whose capacity is subject to development.

#### **Box 8: Outputs of organisations, outcomes of capacity development**

Technically speaking, the *output* of a CD *activity* like training would constitute a change in the way work is done, through the application of new skills, knowledge or attitudes. The *outcome* of such a CD activity would be a change in the *output of the organisation*. This reflects the fact that the focus on *capacity development* is moving the cause-and-effect results chain “downwards” compared to a focus on *capacity*, which is applicable at a “higher” level.

We thus advocate that when the focus is on *capacity development* – and capacity development support – then it is relevant to examine the immediate outputs *and* outcomes of CD and CD support. A focus on the immediate outputs should draw attention away from inputs and activities (e.g. typically technical assistance and training) and towards the results of training (e.g. changed behaviour) and TA (e.g. use of changed processes, technologies, management approaches, quality control systems).

Consequently, a focus on the *outcomes* of CD and CD support means focusing on *organisational outputs* from the unit, organisation or group of organisations concerned.

There are some additional reasons for focusing on organisational outputs. It makes good *political* sense, to the extent that short-term regime legitimacy depends on enhanced outputs that benefit sufficiently large numbers of *citizens*. A focus on outputs can in principle also help to keep providers *accountable*, and improved outputs should, of course, be central to *managers*.

Finally, a focus on outputs provides a basis for *learning* about the efficacy of capacity development initiatives. Grindle and Hilderbrand (1995, 456) found “without exception” that well-performing organisations had a culture that inculcated a sense of mission and stressed commitment to results. This was “fundamental”, even when other constraints were considerable. It is indeed hard to find such unqualified statements in the CD literature.

Consistent with our definition of organisational capacity, we therefore use changes in organisational outputs as operational and relevant *proxy indicators* of organisational capacity change. There are, however, also good direct measures of capacity and performance. The capacity of a car engine and a car braking system can be inspected in a workshop without having the car actually perform on the road or deliver goods or people from one place to another. But ultimately, it is the supply of safe, quick and flexible transport which is the output. If that is delivered, it is a good proxy indicator for assuming that the car has the required capacity. Similarly, the structure, staffing, technology and procedures etc. of an organisation can be assessed against standards, and managers and staff can be subjected to “360 degree” assessments, where subordinates, peers and superiors assess how well they are doing their jobs. But it is the outputs of products and services which ultimately demonstrate that all the elements of capacity are also delivering.

The focus on results in using ROACH is both retrospective and prospective. Looking at past outputs and the trends in their quality and quantity may provide a very clear idea of the *actual* priorities governing resource allocation, including management attention to outputs. When possible informal outputs which are intended to serve individual interests are included (like the collection of allowances from participation in training or workshops), the analyses may also provide good indication of the power relations in an organisation. Past performance is also a good indicator of likely capacity changes in the near future, since performance is unlikely to change dramatically in the short run unless very significant changes have occurred or are expected to occur in various internal and external factors. We are aware that, when looking forward, one should take care not to let the future be a captive of the past. But conversely, unfounded optimism that is not informed by past experiences may lead to nothing but disappointed expectations. What is desirable may not be possible.

## 4.2 The Risks of an Output Focus

All this raises a crucial capacity development issue: how much can the quantity or quality of present organisational outputs be enhanced? And should the organisation produce different outputs than the present ones? Answers to these questions depend on the specific context, but even in concrete situations, some simple lessons derived from organisational and institutional theory, and from practical experience, are helpful.

First, as we have already argued, changes in outputs should be discussed in the light of the feasibility of capacity change rather than development “needs”. The latter way of setting output targets places too many demands on organisations (Tendler, 1989). Although broader visions about the desired level of services are important, interventions can fail because they are too ambitious. Pritchett and Woolcock (2002, 5) make a similar argument, stressing also that a universal needs approach to service delivery has an in-built bias in favour of supply solutions, with the civil service being the main instrument. The Millennium Development Goals, and PRSPs linked to increased resources through HIPC, risk doing precisely that if they are not translated and modified to fit country-specific conditions (see also Clemens et al., 2004).

Secondly, past output performance is a good guide to future output performance because of ‘path dependency’ (Peters, 1999, 62-4). Previous policy choices and organisational practices will exert continuing and strong influences into the future. Significant changes can take place, but these rarely happen and are often difficult to predict. In most circumstances, the past is a reasonable predictor of realistic outputs for the immediate future. Recognising path dependency has the added advantage that it draws attention to organisational history. Tendler (1989), among many others, shows that successful micro-credit programmes took their history seriously and progressed through small changes in the usual ways of doing things, thus learning about production processes, institutional contexts and markets before more ambitious activities were launched. Many programme documents, whether drawn up by recipient governments or donors, do not adequately explain how increases in output that are often regarded as significant are to come about. Again, this observation is not unique to poor donor-dependent countries (Pollitt and Bouckaert, 2000, 97-133).

A third lesson is that an incremental approach to output changes may fit actual policymaking practices well. Even major capacity development initiatives are rarely the result of setting clear and well-ordered goals based on comprehensive reviews and analyses. In practice, according to one marked trend in current political science thinking (Hay, 2002; Hill, 1997), the dominant approach to policy-making, public-sector reforms and programme implementation is incremental. Some even argue that such processes are partly haphazard (e.g. March and Olsen, 1989). The actual process of changing outputs is cautious and takes place in small steps, often modified along the way: Problem (policy) analysis is done in an *ad hoc* manner, one step at a time. Similarly, decision-making is a fragmented and/or decentralised process, occurring as a result of various attempts at mutual persuasion by many stakeholders, rather than issuing from a single central body. This “incremental partisan mutual

adjustment” or “science of muddling through”, as Charles Lindblom (1959) called it, seems to be widely practised even when ambitious output changes are hoped for and initially announced.

If the incremental approach to capacity development sounds too cautious to be relevant for countries that need to “run while others walk”, as Julius Nyerere, former President of Tanzania, once justified the flurry of reform initiatives he started in the 1960s, then the counterargument may be that many small incremental steps can add up to significant changes over time. The old Latin proverb *‘festina lente’*, or hurry slowly, applies here.

Fourth, results-based management has political implications which need careful attention. Thus, certain politically important outputs may be difficult to define, and even harder to measure in any precise sense. Organisations may, for example, (also) produce important ideological or symbolic outputs (Brunsson, 2000). Examples of this are schools or armies promoting national identity and tax authorities symbolising the presence of the state.

Moreover, if RBM is linked to performance agreements, and if accountability is made operational through “objective” performance measurements, RBM may replace traditional values of public service, responsibility and professionalism. This may particularly alienate “street-level bureaucrats” (Lipsky, 1980), who often play an enormously important role in change processes (Tendler, 1997).

In addition, RBM may distort incentives because it can induce managers to take a “checklist approach” to accountability, seeking to fulfil exactly their quota of narrowly defined results. If results are not specified, they are not “my responsibility” (Schick, 1998). Morgan and Qualman (1996) also warn against using RBM as a tool for (donor) control and measurement. The danger is that this becomes “management *by* results”, rather than a tool for performance management and learning, or “management *for* results.”

But managers may also be reluctant to accept being assessed in terms of their delivery of outputs. Principal Secretaries in Zimbabwe actually refused when steps were taken to introduce this approach in the mid-1990s (Therkildsen, 2001). This is because managers may have too little control over the performance of their organisation to be willing to accept responsibility for it. Funds in the budget may come late or not at all, managers may not have effective authority to hire or fire, and they may be tied by clientelist dependencies which effectively reduce the relative autonomy they require to be held accountable for outputs. Politicians may also find it convenient that their promises cannot be measured too accurately, and thus prefer not to commit themselves to specific, measurable output targets.

To create a system that produces information about the results of government is therefore a profoundly political act. It often requires considerable political courage to move to a results-based approach. On the one hand, the introduction of RBM

might become an act of political survival if and when the population at large is pressing for good governance and the reform of corrupt government. On the other hand, it could prove politically damaging by exposing poor performance and corruption (Kusek and Rist, 2002). In any case, any analysis of the functional-rational dimensions of such systems must be combined with a “political” analysis.

Under prevailing conditions in developing countries of uncertainty, limited predictability and reduced spans of effective managerial control, the use of more ambitious results-based management *systems* are often not advisable. Although a discussion of the pros and cons of results-based management would be interesting and important in its own right, we have more modest ambitions in this document, wishing to argue the case for a basic results-orientation, nothing else. The risks in going beyond simplicity were mentioned above. The risk of *not* focusing adequately on results is that the organisation, managers, staff and capacity development process all lose a sense of direction, purpose and meaning. Training becomes nice rather than needed; changes of structure accommodate power concerns rather than demands for efficiency and effectiveness; and information technology is updated just because the existing computers are old and few in number, rather than as a response to new, external demands for newer, better, cheaper or faster outputs.

### **4.3 Output Focus as the Entry Point**

In using the ROACH perspective, we are therefore advocating a simple and straightforward focus on outputs because this helps us learn what is feasible in terms of change, as well as about the effectiveness of capacity development. We stress, however, that learning is not just a task for external specialists or observers, nor exclusively for managers who base their decisions on results reports produced by sophisticated management information systems. The output focus must ultimately become a permanent feature of organisational life: it must penetrate the culture and ethos of the workplace. For good reasons, this may not be easy to achieve, but even if it is not, to discuss what the organisation actually produces in terms of the quality and quantity of service delivery is a good place to start, in both setting goals and discussing how performance can be improved.

## 5. Fundamental Challenges: The Context Shaping the Conditions for Action

The context in which organisations are embedded shape the conditions for their capacity development and change. It provides opportunities and constraints which some organisations will handle well, others less so. Reasons for poor performance – and explanations for success – are not to be found only inside organisations, but must also be sought in the *wider context* in which they perform. CD initiatives that focus on organisations and training activities often rest on the erroneous but convenient belief that the binding constraints on performance can be effectively addressed by organisations themselves or their employees. However, in some countries performance problems diagnosed at the organisational or individual levels may be so deeply embedded in economic, social and political constraints that efforts to improve performance must focus primarily on these conditions (Grindle and Hilderbrand, 1994; Tandler, 1997; Hirschmann, 1993).<sup>7</sup>

Using a different terminology, organisations are never *autonomous*, but *depend* to varying degrees on contextual factors for their budget, staff, norms and culture. The degree of dependence may be pronounced and cannot be ignored when capacity enhancement is being contemplated.

In the case of ROACH, the analysis of the context is therefore as important as the analysis of internal capacity constraints. And for the same reason, as briefly dealt with in Chapter 2, changes in contextual factors may be as relevant, or more so, for causing capacity change in specific organisations (or in the public sector as such) as direct changes in organisational-internal factors or public-sector internal factors.

In Chapter 3, we divided contextual factors into those which can be influenced by the organisation in question, and those which are largely beyond influence and must be appreciated by it (see Figure 3). What should be classified as influenceable and appreciated, respectively, depends on the analytical vantage point. From the point of view of an accounts unit manager in local government, the influenceable context factors are quite different – and most likely much more limited – than such factors are from the point of view of a minister of finance. The specific classification of factors will change over time as the context itself changes, ultimately becoming an empirical question.

Agents must respond differently to the two types of factors. The *influenceable* factors – other agents, their agendas, decision-making, actions, interactions and relations – can be *proactively* influenced, often on a daily basis. The *appreciable* factors, on the other hand, set the stage for possible changes in capacity and performance conditions, to which agents can merely *react*.

When appreciable factors change rapidly (e.g. external shocks to an economy causing export commodity prices to fall), the scope of the possible may suddenly expand or diminish, requiring rapid *adaptive* action in order to modify ambitions, processes

and approaches. Although the same adaptive reaction may in principle be required when influenceable factors change abruptly, the latter, by definition, might have been and may still be influenced by agents, while the former cannot be.

What factors is it important to consider according to experience? As already mentioned, this depends on the analytical vantage point and the specific country situation. Checklists are generally of very little help here, since they often result in vacuous and insignificant descriptions of factors, rather than in an analytical assessment of the significance for capacity development of specific sets of factors. Such analyses are much more difficult to make than checklist exercises, but they are also much more relevant. The Institutional and Governance Reviews of some countries made by the World Bank offer precisely such analyses (World Bank, 2000, is an example).

We shall therefore not be referring to checklists here (see Boesen et al., 2002, 2003b for a more checklist-oriented approach). Instead we shall briefly refer to some of the general structural and institutional factors that are often thought to be decisive in capacity development. This will also show that analysis in this field is often controversial, both theoretically and diplomatically.

### **5.1 Weak States, Informality and Neo-Patrimonialism**

It is a common view that the absence of strong local leadership of, and commitment to, government reform is, perhaps, the single most important constraint in efforts to build sound governance in Sub-Saharan Africa (Schacter, 2000b). Similar views are often made about the poorest countries in Latin America (World Bank, 2000). But why is it difficult for such leadership to emerge, and why does it often evaporate quickly where it does emerge? If deep-rooted structures pervading productive, social and political systems make change difficult, then it is no surprise that changes in these structures will come neither easily nor quickly. Capacity change strategies must therefore take such factors into account.

One view of apparently weak states focuses on the concept of *informality* (Schick, 1998; World Bank, 2000). In many developing countries, there are formal management control systems, rules and procedures determining how positions are filled, budgets spent and expenses recorded. But this may not be how the system actually works: civil servants do not acquire their posts through meritocratic recruitment but may even have to pay for it; ghost workers appear on the payroll but not at work; and the successful bureaucrat knows how to by-pass red tape and use the informal system of connections and networks to make things work. Such informality need not extend to illegal practices or corruption, but it certainly opens the door to them. Thus informality, which is useful and necessary to a certain degree in any hierarchical system, whether public or private, can instead become the dominant feature of public administration, rather than the necessary flexibility that makes a rigid system work. Worse still it is highly inefficient, those working within the system easily losing track of policy goals and results.

This description of public management may be familiar to many observers, although it does not apply equally to all countries and organisations. The really difficult question is whether a high degree of informality can be redressed head on, or whether it is linked to other contextual factors which must change at the same time that the public sector changes? Schick (*ibid.*) argues that the informality of market economies is closely linked to that of the public sector. As long as informality reigns in the form of subsistence farming, poorly defined and enforced property rights, or commercial exchanges being based on trust rather than enforceable contracts, then it is unlikely that governments will install rule-based systems of public management. But the formalisation of markets, which may occur as they develop and pressures from operators increase, is not in itself enough: Schick argues that informality as a culture persists even when the underlying conditions which gave rise to it vanish.

In this paper, it is not our intention to assess whether this particular analysis is the best available to identify more deeply rooted structural factors that influence the nature of the state in some developing countries. Historical experiences from Europe and elsewhere show, for example, that formal bureaucracies can emerge in rather different contexts, and proponents of the “development state” may well be skeptical of Schick’s arguments. But let us consider for a moment the consequences for capacity development if Schick’s analyses were valid. First, to achieve CD in the public sector in the direction of formalisation, a parallel formalisation of the private sector would have to occur. Secondly, even if this were a necessary condition, it would not be sufficient: Schick argues that external controls of the public sector would also be required. In our framework of change perspectives, there would thus have to be changes in two external factors (the formalisation of markets and external controls over the public sector) in order to induce the necessary cultural change within the public sector.

Whether the argument about informality is accepted or not, it demonstrates that this kind of analysis potentially has enormous consequences for how public sector-wide change can be achieved. Following the HIPC-initiative, many countries, eagerly supported by the donor community, have focused on increasing funds for service delivery in the social sectors in their PRSP, as well as on directly increasing their capacity to deliver these services, including improved financial management. If informality is a key factor explaining the persistence of low efficiency and effectiveness in the public sector, then such an approach will have little chance of success unless it is complemented by other efforts, such as strengthening producers’ organisations, the capacity development of commercial courts and arbitration mechanisms, the formalisation of property rights, and the reduction of oligopolies controlling rural trade and credits.

Similarly, if small and informal economies provide weak incentives and opportunities to form strong, interest-based organisations of civil society (producers’ associations, guilds, labour unions), this may perpetuate a political system which has little concern for policies serving broader interests, and more concern for narrower “politicising” for influence, power and rents among an elite. Here too, this approach

would result in a focus on building the capacity of interest-based groups in civil society as a means of enhancing public-sector capacity.

Another perspective on the public sector is that of neo-patrimonialism, which seeks to explain why governments in poor countries, especially in Africa, may be corrupt, mismanaged, unaccountable and perform poorly to varying degrees.<sup>8</sup> This paradigm is based on two main propositions about the context in which public-sector organs operate. 'Patrimonialism' suggests that a patron who is culturally anchored in a particular social and political order bestows gifts from his or her own resources on followers in order to obtain and strengthen their loyalty and support. Clients, in turn, obtain material benefits and protection. 'Neo-' signifies that patrons are typically office-holders in rational-legal state institutions using public funds to build their personal loyalty among clients so as to stay in power. State organs in many third-world countries are infused with a patrimonial logic, according to some observers (Chabal and Daloz, 1999; Clapham, 1985; Bratton and van de Walle, 1997; World Bank, 2000).

The defining feature of neo-patrimonialism, however, is the *co-occurrence* of patrimonial and legal-rational logics. Yet many of those using the concept tend to see only the patrimonial elements, while ignoring the possible existence of legal-rational practices in public sector organs even in countries where corruption is widespread. Indeed, there is much empirical evidence indicating a great deal of *variation* in the influence of patrimonialism, both across countries and between public-sector organisations within a country (Therkildsen, 2004b). Nevertheless, neo-patrimonialism points to important contextual characteristics that are largely ignored in the current aid debate over 'good governance'<sup>9</sup> As in dealing with informality, the hard challenge is to find a balance between changes – almost by definition slow and gradual – in the contextual factors that enable patrimonialism to persist, and the intention to fight the effects of patrimonialism in the public sector directly.

Since changes in deeply rooted structures affect vested interests and power relations, the relevance of the "political" analyses that we are advocating here should be self-evident. Migdal, in his seminal comparative analysis of state capacity versus the capacities of strong men and informal networks, concludes that:

Scholars and aid officials alike have singled out bureaucrats in the Third World for their slothfulness, lack of will, and absence of commitment to reform. These scholars have paid scant attention to the calculus of pressures these bureaucrats have faced that have made them so "lazy" or so "uncommitted". Success for public policies neither waits around the corner in a "new breed" of implementer, nor will it be found in an exclusive focus on new management techniques. In fact, the politics of administration in weak states lies at the heart of problems with policy implementation. (Migdal, 1988, 242)

## 5.2 The Importance of Paradigms of Public-Sector Management

Paradigms of what the state should and should not do, and of how public management should be performed, are other important contextual factors that frame opportunities for change and influence perceptions of capacity and capacity development. Most theories of the optimal role of the public sector are normative, prescribing structures, size and management approaches for the sector. It is noteworthy that these normative paradigms have changed dramatically and very rapidly during the past fifty years. Box 9 presents an overview.

First, the emphasis was on the “developmental state” with a strong direct role in the economy, as reflected in the history of state-owned enterprises. The state, that is, public sector organisations, politicians and bureaucrats, were assumed essentially to be benefactors of society, seeking the public good for all citizens. The conceptual framework for this assumption was the traditional Weberian view of public administration.

Secondly, as this paradigm broke down in the 1970s, the emphasis was placed on “rolling back the state”. Now the public sector was seen as a potential parasite on society, with little to offer but constraints on the growth of a market-based economy. It was therefore seen as a creature which should be downsized, reduced to a strictly facilitative and regulatory role, and subjected to as much competition as possible. Politicians and public-sector employees were perceived as seeking to extract personal benefits (salaries, job security, illegitimate rents and power) from their positions. Sometimes they were even seen as trying to “capture” or “usurp” the state. The proponents of New Public Management and “rational choice” have tended to apply this perspective.

### Box 9. Paradigmatic models of public-sector management

	<i>Weberian Public Administration</i>	<i>New Public Management</i>	<i>Good Governance</i>
<i>Key issues considered important</i>	<ul style="list-style-type: none"> <li>❑ Separation between politicians and appointed administrators</li> <li>❑ Continuous, predictable, rule-governed administration</li> <li>❑ Merit-based appointment of trained professionals</li> <li>❑ Functional division of labour</li> <li>❑ Hierarchy of</li> </ul>	<ul style="list-style-type: none"> <li>❑ Devolving authority, providing flexibility</li> <li>❑ Ensuring performance, control and accountability</li> <li>❑ Developing competition and choice, including within government</li> <li>❑ Providing responsive service, often through non-state agencies</li> </ul>	<ul style="list-style-type: none"> <li>❑ Rule of law</li> <li>❑ Freedom of association and participation</li> <li>❑ Transparency and access to information about government affairs</li> <li>❑ Accountability</li> <li>❑ Capacity</li> <li>❑ Public-sector ethics</li> <li>❑ Strengthening public–private rela-</li> </ul>

	tasks and people <input type="checkbox"/> Resources belong to the organisation, not to office-holders	<input type="checkbox"/> Improving the management of human resources <input type="checkbox"/> Optimising information technology <input type="checkbox"/> Improving the quality of regulation <input type="checkbox"/> Strengthening steering functions at the centre	tions
<i>Main focus</i>	Inputs	Outputs	Accountability
<i>Major assumption</i>	Administrators and politicians serve public, not private, interests	Administrators and politicians serve private interests unless checked and put under competitive pressure	Relations to civil society in widest sense determine balances between pursuit of public and private interests respectively

Source: Boesen et al., 2002

As should be evident, these two paradigmatic understandings of the public sector and its actors closely resemble the distinction made in this paper between the functional-rational and political dimensions of organisations. Those focusing on the first dimension naively assume that any government is serious if it says it wants to promote pro-poor policies. Those focusing on the second dimension cynically never believe that this is the whole story.

A third, more realist or pragmatic view developed during the 1990s: bringing the state back in (Skocpol, 1985; Rueschemeyer et al, 1992). This is not a reference to the size of the developmental state, but it recognises the importance of giving the state both a comprehensive regulatory role, and a role in ensuring broad-based, equality-oriented development, which market forces, left to their own devices, cannot provide. Strong attention is paid to aspects of the “good governance” of the state. Some donors have also begun to think more systematically about the capacity requirements of pro-poor governments (DfID, 2001).

The emergence of such different paradigms over a fifty-year period points to the weaknesses of both theory and empirical evidence in this area. It also points to the highly ideological character of debates over “the role of the state”. For those dealing with sector-level or public sector-level CD efforts, the message advocates caution and acknowledges that the objectives of CD are based more on unconfirmed hypotheses and politically inspired visions than on proven facts.

Hood (1998) goes so far as to claim that one of four approaches dominates public-sector organisations in a particular country at any time, but also that, by being overdone, it generates its own inadequacy, after which it is replaced by another approach. He lists four different typical reactions to what he calls “public-management

disasters”, such as serious safety lapses, police brutality or dramatic financial misappropriations. He also argues that both the analysis of the problem (“who is to blame”) and the remedies suggested for it reflect cultural biases, as shown in Box 10.

**Box 10. Responses to “public management disasters”: blame and remedies**

	Individualist	Collective
High rule-orientation	<p><b>Fatalist response</b>  <i>Stress on:</i> Unpredictability and unintended effects  <i>Blame:</i> the “fickle finger of fate”  <i>Remedy:</i> minimal anticipation, at most <i>ad hoc</i> response after the event  <i>Watchword:</i> “resilience”</p>	<p><b>Hierarchist response</b>  <i>Stress on:</i> expertise, forecasting and management  <i>Blame:</i> poor compliance with established procedures, lack of professional expertise  <i>Remedy:</i> more expertise, tighter procedures, tighter managerial ‘grip’  <i>Watchword:</i> ‘steering’</p>
Low rule-orientation	<p><b>Individualist response</b>  <i>Stress on:</i> individuals as self-interested rational choosers  <i>Blame:</i> faulty incentive structures through over-collectivisation and lack of price signals  <i>Remedy:</i> market-like mechanisms, competitions and leagues, information to support choice (e.g. rating systems)  <i>Watchword:</i> ‘Enlightened self-interest’</p>	<p><b>Egalitarian response</b>  <i>Stress on:</i> group and power structures  <i>Blame:</i> abuse of power by top-level government/corporate leaders, system corruption  <i>Remedy:</i> participation, communitarianism, whistle-blowing  <i>Watchword:</i> ‘community participation’</p>

Source: Hood (1998).

Our point in relation to CD is not that such bias towards one management style or another can be avoided. However, the awareness that a bias does exist may foster a more reflexive attitude towards dominant recipes for public-sector capacity change. There is hardly one recipe providing the right answer for a long period of time.

### 5.3 Public-Sector Reform

The overall legal and fiduciary framework for public-sector operations is also an important part of the context, one that in principle can be influenced to some degree by those involved in dialogue over CD in a sector or an individual organisation.

Public-sector reforms typically aim to address a range of cross-cutting problems: de facto recruitment by connections rather than merit; inadequate salary levels which most people would react to by moonlighting, doing little or asking for an illicit fee (Scott, 1990); an ineffective division of responsibilities between different parts of the public sector; a lack of upward or downward accountability; etc.

But in many countries, public-sector reforms have had little or no success (Spink, 1997). There are many reasons for this, including some of the more deeply rooted structural and institutional factors discussed briefly above. It is therefore important that CD efforts at the sector or organisation levels are not uncritically taking the success of broader reform initiatives for granted. This poses a distinct dilemma for both managers and donors at the sector and organisational levels: if contextual factors linked to the overall public sector are currently constraining capacity, how much energy should then be directed at this level of the public sector (advocacy by managers and donors, support for broader reform from donors), and how much can be done *against the odds* at the sector or organisation levels? We shall return to this theme in Chapter 9, but we also discuss it in the following section.

#### **5.4 Donor Practices Constraining Capacity Development**

How aid-agency behaviour may undermine rather than contribute to capacity development in many aid-dependent countries, despite declared intentions to the contrary, has been well described (e.g. Bräutigam, 1996; Hirschmann, 1993; Hilderbrand, 2002; OED, 2003). Potentially constraining action includes, but is not limited to:

- The proliferation of projects adding to inconsistency of policies and fragmentation of implementation.
- Poaching of government staff for parallel project or programme units.
- Distorting salary schemes through the creation of a special aid agency labour market and in “enclaves”, thus creating strong disincentives for those outside these spheres.
- Creating multiple distorting incentives for civil servants (per diem schemes, allowances, topping up systems).
- Creating procedural bypasses of institutional bottlenecks instead of removing them.
- Bypassing normal budget and accounting procedures instead of strengthening them.
- Undermining national political accountability mechanisms.
- Substituting institutionally demanding domestic taxation with “easy” aid receipts, thus foregoing pressure for the creation of transparent and rule-bound revenue institutions.
- Establishing parallel monitoring systems.
- Initiating uncoordinated, overlapping and under-used studies, planning processes, and even capacity-development studies and processes.

- Focusing attention on those parts of the public sector that they support, thus neglecting other, equally important, parts of it (e.g., focusing on service delivery itself, not the various other processes that also need to be done well to get a sector to perform)
- “Moving money” as a key indicator of performance.

Edgren and Matthews (2002) contend that these actions by aid agencies have created vast opportunities for rent-seeking behaviour that reinforce the effects of patrimonial bureaucratic systems and weak capacity.

Being widespread – having 20-25 bi- and multilateral aid agencies and several hundred projects is nothing unusual for aid-dependent countries – such capacity-constraining factors created by aid-agency behaviour are unfortunately in themselves important contextual factors shaping CD opportunities. Some of the donor practices listed above are no longer so prominent as they used to be, while others persist. This underlines the importance of reforms of the aid-delivery system.

### **5.5 Dealing with the Context: Listening and Learning**

It is very, very rare for a Dane to try and bribe a policeman in Denmark who is about to hand him or her a speeding ticket. It would also be quite stupid, as the policeman would most likely feel terribly offended personally at having his professional integrity challenged in this way. He would in all likelihood apply the full force of the law, with a vengeance. Danes do not need to be told this – they simply know that this is how the system works. On the other hand, they also know, without being told, that they can ask a repairman whether the price would be a little lower if no invoices are issued, thus avoiding a little taxation. The repairman may say no, but he would rarely, if ever, be offended by being asked. On the other hand, neither the customer nor the repairman might wish to tell this to outsiders.

In the same way, knowledge of how contextual factors work, as well as of how organisations work in a specific culture and context, is often intuitive, and is neither publicly displayed nor necessarily shared with outsiders. These are “hidden transcripts” (Scott, 1990). As Migdal (1998) pointed out, bureaucrats in poorly performing organisations have most likely made a rational calculus that leads them to behave in the way they do. The problem for outsiders is to understand why this is right, rather than to assume that it is wrong.

This is why mechanical context analyses based on superficial or “official” information will never be sufficient. Participatory methods, such as a group Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis looking for external and internal factors, may help, but formal settings are often not conducive for discussing clearly sensitive matters.

Of course, this is a particular problem for donors who want assurances that their support, including CD support, will be effective. To obtain such assurances, they

need to draw on local knowledge from a broad range of sources, build trust at a personal level, and respect recipient sensitivity and confidentiality. These are all difficult tasks for donor staff, who often only learn what is going on the point of their being transferred to another country.

Academic literature offering both general insights and country-specific analyses is, of course, immensely helpful. But there are no shortcuts: without an analytically based, detailed and strategic understanding of structures, institutions and agents, neither the constraints on nor the opportunities for organisational change can be grasped. We return to this theme in Chapter 9, but first we need to consider organisational networks, individual organisations and the inputs they use.

## 6. Organisational Networks: Addressing the Immediate Dependencies

Every public-sector organisation must work with other public or private organisations in order to produce outputs. The network of organisations required to produce core outputs makes up a central part of an organisation's influenceable context, and relationships among individual organisations in the network often exert important influences on the capacity of each of its members. Analysts of organisational capacity should therefore pay close attention to the capacity constraints and potentials arising from interactions among organisations in the output network. This focus is also important for another reason. The capacity gains from interventions in the network – or just in parts of it – may sometimes be substantial, and are often easier to implement, than measures targeted at the public sector as a whole. Such interventions are also likely to be more feasible, and to produce results more quickly, than interventions aimed at other parts of the 'influenceable' context that were discussed in the preceding chapter.

A network perspective is inherently a multi-actor perspective. Organisational networks have three characteristics in common: interdependence, goal variety, and (fairly) stable patterns of bargaining interactions (Kickert et al. 1999).

Networks exist because organisations need other organisations' resources (such as funds, staff, technology, information, support, services, decisions, etc.) to produce outputs. *Interdependence* varies, of course, since some organisations are more important than others in the production of a specific output. Organisations are never fully autonomous, although some are clearly more powerful than others and have more space for decision-making and agenda-setting than others.

*Goal variety* is typical because members of a network pursue different formal and informal objectives and seek to satisfy different stakeholders. Ministries of agriculture and the environment may both be important actors in pursuing environmentally sustainable agricultural practices, but the primary goal of a ministry of agriculture is to promote agricultural production rather than protect the environment. Moreover, no single organisation normally has enough formal or informal power to determine the goals or actions of other actors in the network. Even prime ministers and presidents often find it both delicate and difficult to intervene in intra-ministerial fights.

Organisations within the network, being interdependent yet semi-autonomous, *interact and bargain* with one another over providing, withholding or failing to deliver resources (defined in a broad sense, as explained above). To perform, therefore, an organisation must have the ability to influence other organisations in the network. Recurrent interactions may help generate fairly stable inter-organisational relationships over time, although significant changes can also occur because many actors with different and sometimes changing goals are involved.

Most public-sector managers know that certain organisations (private, public, civil society) often matter greatly for the performance of one's own organisation. Consequently, performance will suffer if interactions with important 'neighbouring' organisations in the network are poor, or if neighbours themselves have inadequate capacity. The SWAp and PRSP approaches focus attention on the need to take interactions among organisations into account.

Finally, the network perspective has become increasingly relevant because public-sector reforms often involve decentralisation and the setting up of executive agencies (Nielsen, 1999; Therkildsen, 2001). This has created fewer hierarchical organisational frameworks for implementing government policies than was previously the case. A number of key issues are therefore important to take into account with respect to capacity issues in organisational networks.

First, the members of an output network, that is, those involved in producing a specific output, need to be identified. The basis for this identification is not only the formal assigning of roles, but also the actual participation of organisations in the production of outputs. A substantial number of organisations may often be identified through this mapping process. Hilderbrand and Grindle (1994), for example, report that the network for drawing up budgets in Bolivia included at least twenty entities (ministries, the central bank, the IMF, the World Bank, donors, parliament etc.) as did the maternal health services (here NGOs and private-sector organisations were also prominent).

Secondly, some members of the network are more important than others in producing a particular output. In Bolivia, for instance, three domestic organisations together with the IMF and the World Bank were central in the process of formulating budgets, while a handful of organisations were central in maternal health services. It is interactions among these central organisations or their absence that especially influence capacity.

Thirdly, organisational interactions between the central members of the network need to be assessed.

In a decentralised system, for example, the relationships between central and sector ministries and local governments are often crucial for performance at both the central and local levels. The interaction may involve funding (grants and the conditions or guidelines for them, approval of budgets, etc.); staff (central involvement in hiring, firing and transfers); information (monitoring requirements, sanctions and rewards); and implementation arrangements (formal and informal divisions of labour). In addition, interest groups (unions, NGOs and civil society organisations) may be involved in implementation, or in putting pressure on organisations to perform and/or favour particular interests. The assessment should aim at identifying major constraints and potentials in relation to output production in these interactions.

Fourthly, the organisational network is part of the ‘influenceable’ context of the organisation. Interactions may involve combinations of cooperation, coordination, competition and conflict (Robinson et al., 2000). However, a network rarely agrees on a clear goal or set of goals which can be taken as a guideline for managing the interactions. Even in a hierarchical system, there is rarely one manager at the top with a clear line of effective authority. Equally importantly, there are typically no clear decision-making procedures on which managers can rely. Consequently, although interactions among the members of a network may constrain the capacity of individual organisations, an organisation can also actively seek to influence such interactions in order to enhance its capacity to produce outputs. Davies (2003) argues that in such situations, a key issue is the extent to which network members are able to develop a common understanding of what is problematic about the interactions and what should be done about it. This is the first step in starting to deal with such problems.

Finally, from a capacity perspective, it is important to determine whether particular organisations are bottlenecks or are missing in the network. In some cases, the lack of active involvement may be caused by inadequate capacities in a particular organisation (e.g. capacity in local government is constrained by poor capacity in the budget department of the ministry of finance, whose budget guidelines and budget approvals are needed). In other cases, there is little or no interaction with an important organisation (e.g. teacher union involvement in renegotiating teachers’ employment conditions in local government). Often, the choice of what organisation(s) to work with (if choices exist), can be crucial for the capacity of an organisation to produce outputs.

To identify members of an output network and their interactions can be quite demanding in terms of information and analyses (Davies, 2003; Kickert et al., 1999). Moreover, the different outputs of an organisation may involve different networks. If the purpose of the analysis is to agree on the initial scope of capacity development initiatives, then it is important not to drown oneself in details. The initial focus should be on the larger picture – the *key* actors in the network and *their* interactions and capacities – not the intricacies of network analyses. Nonetheless, these intricacies belong to the managers of both CD and daily operations, who need to apply both their formal and informal manoeuvring skills to ensure progress.

There is often an understandable concern with fragmentation and conflicts in organisational networks, giving rise to persistent appeals for more coordination. Indeed, a lack of donor coordination in such networks is an obvious and growing problem in relation to recipient capacity, despite the emergence of SWAps and PRSP (Acharya et al., 2003; World Bank, 2003b). Moreover, there are often major coordination problems in linking the domestic organisations in a network. Conventional ways of dealing with such problems – establishing high-level coordination committees, etc. – often do not work well (Honadle and Cooper, 1989). This may reflect underlying structural, institutional or political incentives against coordination. But there is also a need to collect experiences of successful additional and alternative

ways of dealing with coordination problems. These might be mechanisms for sharing information, deliberately developing capacity to interact in organisational networks, or commonly agreed output and outcome targets and review mechanisms in order to track their achievements (Adam and Gunning, 2002).

## **7. The Nuts, Bolts and Grease of Organisational Performance**

Organisations perform functions that “transform” inputs (e.g. funds, staff, technology; see Chapter 8) into outputs (e.g. water schemes, policies, budgets, audits; see Chapter 4). The transformation requires interactions between people and technical systems within the organisation, as well as interactions with other organisations (networks; see Chapter 6) and with the environment at large (context; Chapter 5). An organisation’s capacity enables it to carry out transformations, that is, to perform. Analyses of transformation processes help identify existing capacities, as well as those factors within the organisation which may help to constrain or enhance capacity.<sup>10</sup>

In turn, these analyses help decide which capacity initiatives, if any, may improve the transformation processes. Direct capacity development initiatives (“push-approach”) are those that address constraints in organisational transformation processes head-on (training of staff, “business process reengineering”, organisational restructuring, new technology, more motivational management style, etc.). These changes may increase internal efficiency, or adjust the organisation and its outputs better to the larger context. Indirect capacity-development initiatives (“pull-approaches”) are those that seek to change the internal capacity elements through changes in influenceable factors outside the organisation. Such initiatives may sometimes be more effective than direct ones (see Chapter 9).

There are numerous models available for analysis of the internal elements of individual organisations. We use Weisbord’s (1985) “six-box” model to structure the analyses of transformation processes. However, since we feel that the power aspects of capacity development are not sufficiently dealt with in this model, this issue is specifically dealt with too.

### **7.1 The Six-Box Model**

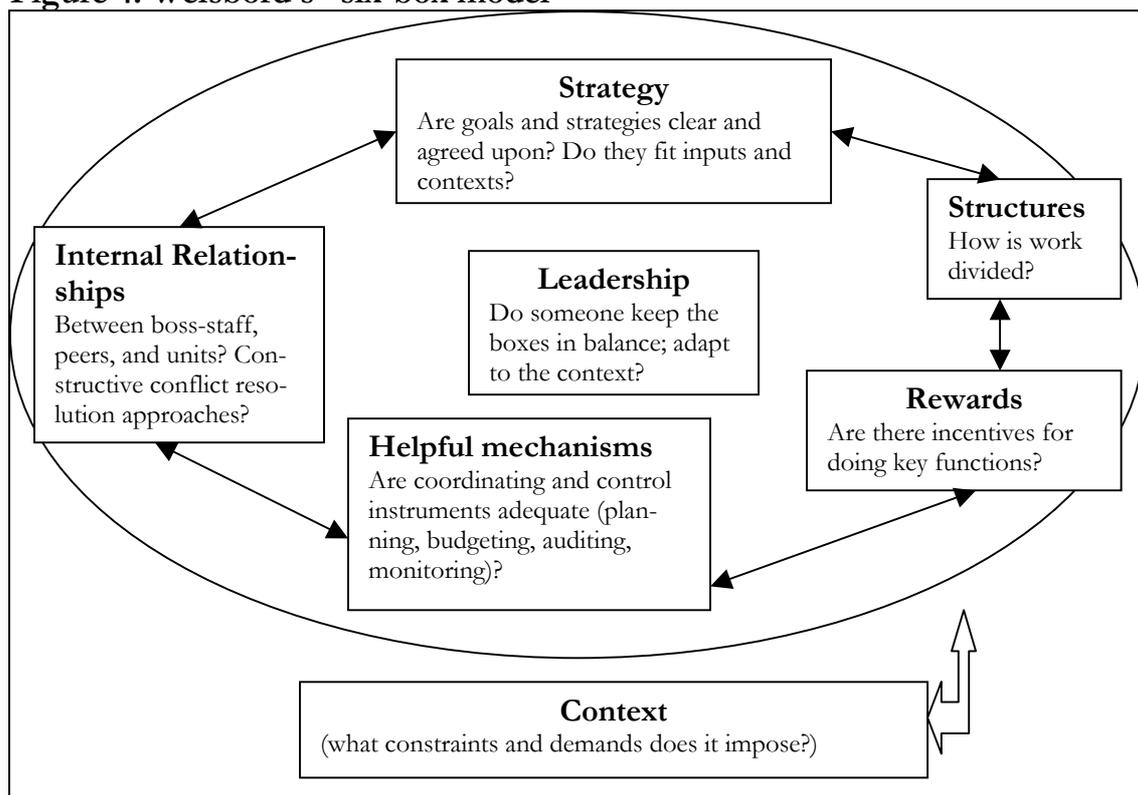
The main features of the six-box model are shown in Figure 4.

This model of organisational transformation processes fits our approach because it is output-focused and based on an open-systems view of organisations. Moreover, it is one of the most straightforward and easy-to-use systems models available and has considerable intuitive appeal. Therefore it is “perhaps the most popular diagnostic model” in use (Harrison and Shirom, 1999, 101). Weisbord (1985) himself has provided an excellent operational guide to the model. Other ways of structuring the diagnosis can be used, however, if analysts have other preferences or are more familiar with other models, as long as these help produce a holistic view of organisational transformation processes.<sup>11</sup>

Two boxes in the model deserve special comments.

The leadership box is a hub connecting the other five boxes. The assumption is that leaders, defined as key decision-makers and top managers, exert considerable *influence* over organisational capacity and effectiveness, even though managers often have limited *control* over the organisations they head. It is their responsibility to deal with factors that constrain capacity and to realign relationships between the boxes. Some may question the central role and influence of top management in the model, but there is empirical evidence of the great importance of leadership in poorly institutionalised public-sector systems. Grindle (1997), for example, found that good leaders sought to shield the organisation from the disruptive effects of working in the public sector (i.e. they tried to protect it against the pressures of patronage and political interference; bending rigid civil service rules; etc.); interacted with staff in a non-hierarchical manner; and repeatedly and diligently informed staff about the effort and quality of work expected from them and the rewards that would follow if these expectations were met in the form of promotions, recognition, study leave, etc.. Moreover, as already argued in Chapter 2, leadership is important if major capacity-development initiatives and other organisational change measures are to succeed (Mackay and Horton, 2002; see also Jones et al., 1996).

**Figure 4: Weisbord’s “six-box model”**



Source: Weisbord (1985)

The rewards box also deserves special mention because organisational capacity and performance depend significantly on staff motivation. This box illustrates the organisational culture and incentives that influence transformation processes in order to produce relevant outputs in relation to the organisation’s goals. Therefore an output may not be produced (or may be produced inefficiently) if there are weak or no in-

centives to carry out the functions that help produce it. The formal system of salaries, wages, bonuses and the like form part of the organisation's rewards or incentives system (e.g. levels and differentials of salaries and their rewards for key functions/staff, promotions, opportunities for further studies, study tours, etc.). The literature on such important issues is considerable (e.g. Colclough, 1997; Winckler Andersen et al., 2002). An organisation's implicit reward system can, however, also be important because a formal reward system does not guarantee that people will feel and act as if they are rewarded. The informal reward system refers to how staff value (and respond emotionally to) the successful completion of work, and how much appreciation and support there is for work-related achievement in the organisation (as discussed under leadership above).

This brings issues such as personal growth and satisfaction in social relationships, the prestige and recognition associated with working for an organisation, professional pride and service to one's community or country to the fore. Such informal aspects of reward systems in government organisations are often of prime importance. This is especially the case in public sectors, where salaries are typically insufficient to maintain the middle-class standard of living that is often associated with public employment, and where salaries are sometimes lower than in the private sector (Ostrom, 1992; Grindle, 1997; Tendler, 1997).

The evidence that there is no automatic link between material rewards and performance has two implications for CD. First, on its own a rise in salaries in the public sector will not necessarily enhance performance. Staff may reasonably regard the pay rise as a long overdue compensation for past injustices rather than an up-front reward for future performance (Scott, 1990). If the other non-material elements stimulating motivation are not changed, performance is therefore not likely to improve.

The second implication for CD is that, even in conditions of relatively poor salaries, motivation may be high, and be stimulated or constrained by, for example, the leadership of the organisation. Donors often try to create this kind of additional stimulus (training offers, new office gadgets) and may also resort to strong material incentives (direct or indirect salary supplements, allowances) to make their particular project work.

Sometimes this has detrimental effects outside such specially rewarded units (or, on a broader scale, in communities not favoured by a project, compared to neighbours lucky enough to have a project). This is because motivation is closely linked to a sense of "equity" or fairness among the members of an organisation (Weisbord, 1985). This can have very negative effects on motivation if there is a widespread perception that an incompetent but well-connected colleague is more likely to be promoted than a more competent one, or that pay is very unequal for equal work.

Linked to this, the hiring and firing of staff is an important issue. Rauch and Evans (1999) found across a wide range of countries that meritocratic recruitment was the most important factor explaining bureaucratic performance, followed by internal

promotion prospects and career stability (see also Evans and Rauch, 1999; Court et al., 1999). However, few public-sector organs have autonomy in such matters.

In each of the six boxes, a formal system (what exists on paper) and an informal system (what people actually do) operate side by side. Neither system is any better than the other: they exist side by side. The informal system cannot and should not be designed or wished away. Diagnosing the formal system is partly based on the organisation's statements, charts and reports about how it carries out its transformation processes, and partly on an assessment of the extent to which this fits in with the context that the organisation is operating in. The informal system is composed of the unwritten (and often unspoken) rules that govern the behaviour of (groups of) staff: what kinds of behaviour are right or wrong, good or bad, allowed or not allowed, appreciated or not. Diagnosing the informal system focuses among other things on the frequency with which people do certain things compared to how important these things are for organisational performance. A key question in these diagnoses is whether the formal system meets the needs of the people who have to operate it. The lack of fit between the formal and the informal systems may help to explain why performance is not what it should be.

## 7.2 Power in Organisations

The power to maintain or change transformation processes is another important factor we have to diagnose. Given that "power" is a difficult and complex concept (Hay, 2002), it is astonishing that most people in an organisation will know and usually agree about who the powerful people or groups in an organisation are, although some may not want to talk to others about it.

Power has often been taken to mean the ability to make someone do something that he or she would otherwise not do. But power can have additional dimensions. Political scientists in particular also define power as the ability to make others *refrain* from doing things (Hay, 2002; Hill, 1997). Finally, and of particular interest, is the power implied in the ability to *shape agendas*, including agendas for change.

However, formal organisational hierarchy is often not a sufficient guide to power. There may be many other, sometimes more important sources of power in organisations. Morgan (1986) provides several examples of sources of power: control of scarce resources, for example, the distribution of new computers; use of cars; use of structures; rules and regulations, including when to by-pass them when convenient, and when to follow them when *this* is more convenient; control of decision processes, including influencing agendas; control of knowledge and information; control of boundaries (see section 3.1); control of technology; membership of internal and external alliances or networks; control of "informal organisations" (the "know-who") or "counter-organisations" like trade unions; and symbolism and the management of meaning. Some observers would add personal competence as a source of power.

In the context of poor countries, where resources are very scarce and power often very concentrated, some of the above-mentioned sources of power are more frequent than in others. First, (groups of) employees acquire power from their relationship to powerful individuals and groups outside the organisation. This is not limited to countries where neo-patrimonialism is widespread: power can also be linked to the ability of some people or groups within the organisation to handle external pressures that are vital for its survival or success (producing proposals with the right form of words to obtain donor funding and hence secure resources for the organisation, provide goods and services that satisfy powerful external stakeholders, fend off political interferences, etc.). Front-line staff, who are in face-to-face contact with target groups and whose work cannot easily be monitored, if it is at all (e.g. tax collectors, extension staff), also often have considerable discretionary powers to act (Pritchett and Woolcock, 2002).

### 7.3 Limitations of the Six-Box Model

The six-box model permits us to address, in a systematic way, different clusters of frequently occurring organisational problems. Like all other models, it has its limitations. The model does not deal sufficiently with the power issues discussed above. Moreover, although leadership is rightly regarded as a key issue, understanding the leadership requirements of an organisation depends on the specific context, the type of organisation, the strategic challenge facing it, etc. The intuitive appeal of the model, with six boxes focusing neatly on typical organisational problem areas, must be balanced with the weaknesses arising from the lack of specific linkages between the boxes. What exactly does it mean to keep the boxes in balance? When does the fit between the formal and informal systems constitute a significant capacity potential, and when is it a constraint? The six-box model does not pretend to answer these questions, but it may help managers and analysts to put into perspective whatever theories they already know.

In Chapter 9, we shall return to the “who-how-when” of diagnosing capacity constraints and development opportunities within an organisation or a network of organisations. At this stage, we shall merely stress that *identifying problems inside an organisation does not automatically imply that these problems should be mostly or exclusively addressed directly* or through an internal “push” approach, as frequently happens in donor-supported CD (Boesen et Al., 2003a; Brinkerhoff, 1994). The internal capacity problems may be addressed more satisfactorily through a combination of external “pull” approaches that aim to modify contextual factors which shape the internal capacity, and internal “push” approaches.

## 8. The Inputs: As Good as They Get?

The last element to be examined in the open system approach is the inputs – staff, funds, infrastructure, equipment, raw materials, semi-manufactured articles and knowledge. Staff, infrastructure and technology are obvious key constitutive elements of organisational capacity. Without the raw materials and semi-manufactured inputs, there will be no performance and no outputs. In this sense, with a concept of inputs borrowed from traditional industrial production processes, the issues are quite simple. There is little reason to add much to what has already been written above.

However, moving from traditional industry to the public sector in developing countries, the picture becomes more complex and more intriguing. In donor analyses of capacity constraints, statements point overwhelmingly to a “lack of funds”, “lack of transportation,” “lack of skilled staff” etc. – in short, to a lack of inputs – as constraints for organisational capacity development and increased performance (Boesen et al., 2003a).

Leys (1994) takes this view to one extreme by arguing that one particular factor, namely a lack of resources (funds) due to the marginalisation of poor countries in the global capitalist system, is the major cause of low organisational capacity. Though we adopt a different analytical approach, his arguments nevertheless provide a much-needed antidote to the often upbeat claims and excited rhetoric about the unused potential for capacity and performance improvements in poor countries (e.g. Wunsch and Olowu, 1990). Clearly, if the government budget for an African country with 12 million inhabitants like Burkina Faso is smaller than the budget of a municipality with 50,000 inhabitants in Denmark, then it is quite obvious that capacity is lower, that fewer services of a poorer quality are all that can be delivered, and that less infrastructure can be built and maintained.

The limited availability of trained manpower is also a constraining factor. Especially in Africa, it is significant that the starting point at decolonisation was extremely low: by 1960, enrolment in higher education in Africa was only about one-sixtieth of that in Asia and Latin America (Bräutigam, 1996). Though the situation has improved, Hirschmann (1993) points out the brain drain to developed countries (or to better performing developing countries), as well as to the private sector. To this should be added the fact that the HIV/AIDS pandemic is taking a high toll on civil servants, teachers and health staff.

Recognising that limited resources do impose objective limits on what can be done, the basic problem with the “lack-of”-argument is that it invites the conclusion – as any “lack of...” argument always does – that the solution to capacity development is to provide what is lacking, namely more funds (or cars, computers, buildings, paper, staff, skills). We are not contesting the obvious fact that poor countries eventually need additional resources for their public sectors, otherwise, they will not be able to

perform the functions needed to supply the relevant public goods required by a growing economy and population. But donors have provided resources for decades without substantial evidence of long-term sustainable capacity development. Consequently, there is an urgent need to explore additional issues before any “lack of inputs”-type argument is accepted.

First of all, a lack of inputs to an organisation really means a mismatch between organisational ambitions and goals on the one hand and the means available to reach these goals on the other. That such mismatches often persist is perfectly understandable and may “just” indicate the need for increased allocations to an activity. Present inputs may only be sufficient to cover 80 percent of the demand for pre-natal health care effectively. With an increase in resources, service coverage could be expanded to 100 percent. Yet, the mismatch between goals and resources often goes hand in hand with ineffective and inefficient use of the few resources available. Instead of using the resources effectively to accomplish tasks on a limited scale, resources are often spread too thinly in an effort to reach more people, with the result that little is achieved at all.

There are good reasons for this. It lets politicians get away with pretending that the public sector will serve everybody. Sometimes this leaves the hard and unpopular priority choices to civil servants, but more often the public sector is left to operate without any explicit prioritisation (World Bank, 2003a). Consequently, it is often difficult to reduce official goals – for example, relating to service delivery in health and education – to match available resources. Less would then be produced, but in a more effective and efficient manner. However, in many cases the permanent mismatch between goals and resources may not only reflect the fact that prioritisation is politically difficult, but also that there is insufficient pressure from the citizens at large for a different set of priorities, or that the focus on outputs has been lost, as discussed in Chapter 4. In some countries, Public Expenditure Reviews are addressing such issues.

Secondly, a lack of funds is often made worse by inflexibility in the formal budget. Thus, it may often make very good sense from a capacity point of view to reduce staff levels in order to increase recurrent cost funding. This would allow remaining staff to work more effectively. Yet, such a reallocation from salaries to other recurrent costs may be politically sensitive, as this implies staff reductions. And even if staff reductions in a particular organisation are carried through, the salary savings may not benefit the organisation whose staff is being reduced, nor may they be used to finance non-wage expenditure that would increase outputs.

The challenge is to strengthen the incentives to improve the balance between staff and other inputs, which points to public sector-wide problems. Although these can be remedied in individual organisations in the short run through donors being willing to cover operational costs, such support has associated negative effects and may postpone necessary overall adjustments between different types of inputs which public-sector institutions need in order to perform effectively.

A third issue relates to the lack of predictability of inputs. As Schick (1998) vividly describes it, the budget arena may often be marked by informality. Often a government has two budgets. There is a formal budget approved by parliament, which mainly serves symbolic purposes, as it goes well beyond the fiscal capacity of the government. On the other hand, there is a real but informal, budget. Its size and priorities are only known after expenditures have been made. It is sometimes managed by a cash budgeting system that only releases funds to organisations when revenue and donor funds are in the treasury's hands. The impact on individual managers is high levels of uncertainty that may reduce work planning and task assignments to a largely symbolic exercise. When money eventually comes around, it is used to put out the most urgent fires (for example, paying important contractors and suppliers). In turn, this may lead to further informalisation of the contractual relations, since, when the government does not pay as agreed, suppliers do not deliver as stipulated.

From a narrow focus on individual organisations, such problems may be solved on an ad hoc basis. If nothing is done, an informal budgetary system may eventually foster strong vested interests in maintaining the status quo, thus making sector-wide, or public sector-wide, remedies increasingly difficult to implement. In this situation, technical approaches to create more predictability in input provision might meet stiff, informal political resistance (Hilderbrand, 2002; Brinkerhoff, 1994; Lopes and Theisohn, 2003).

Fourthly, the source of funds for public-sector organisations is no trivial matter. A standard argument is that the greater the distance between financier and user, the less will service providers be accountable to users or sensitive to user preferences and needs (World Bank, 2003a). Taxes paid locally and transparently to local government should in theory exert pressure on it to deliver the corresponding services efficiently. There is to our knowledge no clear evidence about how well this pressure works. Tendler (1997) is among those warning against excessive faith in the ability of users and clients to hold service providers to account. Anecdotal evidence indicates that road fund mechanisms, where toll fees are earmarked for road maintenance, have led to better maintenance services as part of a wider set of measures, including a partial privatisation of services.

On the wider scale, however, it has been argued that low domestic tax levels, combined with high aid dependency and aid modalities focusing on individual projects or institutions, will weaken national accountability measures and put donors in the driver's seat (Moore, 2004). On the other hand, the relationship between taxation and accountability is far from being straightforward (Fjeldstad, 2001; Therkildsen, 2002). Nevertheless, it is no trivial matter where funding for organisations come from, since this will influence organisational behaviour, as do other factors in and around an organisation.

Donors have excelled in offering particular solutions to problems related to a lack of inputs or their poor composition. The systemic challenge is far wider, and far more difficult to address. In many countries, this may require a more comprehensive public-sector reform. In the last two chapters of this document, we turn to this key issue: if, when and how such broad-based change, as well as more modest capacity development initiatives, can be stimulated.

## 9. Stimulating Organisational Capacity Development: Options and Challenges

The track record of capacity development in public-sector organisations in developing countries is highly diverse. Progress is visible in some countries and in some periods. Under certain circumstances, capacity is weakened rather than developed. In other circumstances progress is limited, despite considerable efforts. But even in contexts where there are few enabling factors, some organisations fare better than others, indicating that there is often some room for making a difference, despite all the odds (Grindle, 2004). This variety of experiences demands careful navigation between the Scylla of naive pursuit of the desirable and the Charybdis of cynical rejection of the feasible when it does not live up to the great expectations. Capacity development efforts in any organisation navigate between these dangers.

Unfortunately, no precise map exists showing how to achieve meaningful capacity results in specific situations. The general literature about change in private and public sector organisations can help, as can analytically informed dialogue. The approach presented in this paper offers a framework for such a dialogue. In this chapter, we discuss various options for inducing, stimulating or supporting change. This includes a number of considerations:

- First, *which* range of options for capacity development efforts must *in principle* be considered before a decision is taken on how to stimulate change?
- Second, *how* and *when* can capacity development efforts be adapted to the appreciable and influenceable contextual factors and to factors inside the organisation?
- Third, *who* are the important agents of capacity change? What is the role of staff and managers in organisations and networks which are developing their capacity, of other national stakeholders and of consultants? The key issue of commitment is dealt with here.
- Fourth, *what* is the role of development agencies? Do they have a role, beyond encouraging change and paying the bill?
- Fifth, what issues of power are involved in change, and what are the power and dynamics of capacity change processes themselves?

### 9.1 What Can Be Done to Stimulate Organisational Capacity Change?

In Chapter 2, we suggested that organisational capacity-change processes should be analysed from two complementary perspectives, each including two dimensions. The first perspective looks at whether change efforts are directed at external or internal factors: organisational capacity-change processes can be driven by modifying important capacity-shaping factors *external* to the organisation (e.g. a more effective auditor-general's office may force a change in internal accounting practices in, say, the customs authorities, or teachers' performance may be improved through the setting up of a parents' committee.) Or else change may be achieved by directly

modifying *internal* organisational factors (e.g. introduction of better planning procedures, training courses for teachers).

There are also two dimensions to the second perspective. The first dimension of change focuses on modifications of what we call “functional-rational” capacity-shaping factors (e.g. optimisation of work flows to reduce processing time, new quality control mechanisms). The second dimension of change mainly concerns what we call “political” capacity-shaping factors and is related to power and interest-based issues within and outside the organisation (e.g. a new quality control unit may be perceived to concentrate power which was previously in the hands of line managers, and be resisted for the same reason). Figure 2 in Chapter 2 illustrated the four resulting fields, combining the four dimensions. Figure 5 below repeats the figure, but with examples added in each box. Note that the four dimensions should not be taken as “either-or” categories: they supplement each other by bringing different relevant capacity-development options to the fore.

**Figure 5: Four dimensions of organisational change**

	<b>“Functional-rational” perspective</b>	<b>“Political” perspective</b>
Focus on organisation-internal factors.	Focus on changes in task-and-work system in the organisation.  Most donor interventions have been in this category – training, restructuring, TA. “Business Process Reengineering”, “Total Quality Management” etc. also falls in this category.	Focus on changes in power and authority distribution, conflicts and pursuit of different interests.  This could include a focus on changing sanctions and rewards, enforcing hiring and promotions based on merit, building internal coalitions for change, introducing performance-based payments, actively discouraging rent-seeking.
Focus on organisation-external factors.	Focus on how changes in external factors and incentives will affect the task-and-work-system dimensions of organisational capacity.  Examples might be budgetary reforms aimed at ensuring predictability of flows of funds to organisations, change in legal mandates, civil-service reform, strengthening of supervisory agencies.	Focus on how changes in external factors and incentives will affect the dimension of power and authority distribution, conflicts and pursuit of different interests in the organisation.  Examples might be the strengthening of civil-society organisations or of political accountability, building external coalitions for change, strengthening media’s role as a watchdog.

Figure 5 serves two purposes. First, it forces analysts of organisations to look at capacity-constraining and capacity-enabling factors from *various perspectives*, and to look for such factors within both the organisations and the context. Secondly, when considering approaches to change, the model also draws attention to *the many options to stimulate change* beyond what has been the traditional internal-functional focus of donors (Boesen et al., 2003a).

In many cases, a combination of approaches to CD is probably warranted. A one-dimensional approach will be unlikely to succeed. This points to the inherent complexity of organisational change, which may demand parallel actions by different actors in different arenas to produce results. And this raises serious dilemmas for donors, as will be argued in Chapter 10.

There are no clear distinctions between the “functional” and “political” perspectives. Any “functionally” oriented intervention is likely to have implications which benefit some but are detrimental to others. And even apparent technical changes will often redistribute power among staff or units. Moreover, any “politically” oriented intervention aimed at changing power structures will eventually result in attempts to change formal procedures, practices or policies. The message is that a change process may focus more on one perspective than another, and that constraints and opportunities may be overlooked unless both the functional and political dimensions of capacity change are taken into account. In other words, a direct focus on introducing “technical fixes” as a response to what are *also* underlying constraints in power and incentive structures is most often doomed to failure.

The distinction between internally and externally oriented strategies also serves the double purpose of guiding both analysis and intervention design. Obviously, a choice to influence external factors – which by definition must be influenceable! – will not in itself change the capacity of the organisation being targeted for CD. The hypothesis underlying this approach is that change in the external factors will enable or force the organisation to change either its “functional” capacity or its internal power structures and incentives so as to perform better.

Simply put, the four fields in the figure represent a basic search model that can help to identify more deeply rooted causes of capacity constraints, and to avoid treating symptoms of capacity deficiencies as if they are causes. We stress, however, that in most cases it is reasonable to expect multiple causes to influence capacity constraints and shape capacity development opportunities. Efforts to enhance organisational capacity may therefore often be best served by addressing factors in all four boxes.<sup>12</sup>

## **9.2 When and How Can Capacity Development Be Stimulated?**

There are important issues of scope, time horizon and sequencing to consider when capacity development is on the agenda. This is discussed in the following.

*The Scope and Time-horizon of Change: Comprehensive Reform or Small Steps?*

In this document, our focus is on the capacity development of public-sector organisations. Given the adoption of sector-wide approaches by donors, it is logical to focus on capacity development in all the organisations that are needed to produce the requisite outputs in the sector. Indeed, this will often be the objective of capacity development linked to such programmatic approaches. However, capacity development efforts could also focus on a network of organisations related to the sector or on particular organisations or even units within an organisation.

In all these cases, one of the key strategic decisions is to decide the scope of change: is comprehensive change or reform desired and feasible, or is a gradualist, incremental approach to be preferred? Several authors – and a whole tradition in political science – argue that change, when it happens, is overwhelmingly incremental (Hirschmann, 1993; Lindblom, 1977). There is also a broad consensus that CD is a long-term activity, and that in so far as it requires external support, this should also be long term (Moore, 1995; Bräutigam, 1996; Andersson and Isaksen, 2002). Some of these authors now consider a time horizon of 20 to 25 years as more realistic than one of 10 to 15 years.

This lends credibility to the argument that capacity development is incremental and that it should be approached from this perspective. But the argument may also be taken as implying that a broader, more comprehensive reform of how public-sector organisations work is hardly possible. This is not necessarily true either.

Whether change efforts must adopt a more or less comprehensive level of ambition depends on the context. If the stability of power structures, political systems or individual positions is threatened, and reform is perceived to be a response to such a crisis, it is likely that the reform will command more attention from senior policy-makers. Consequently, more radical and innovative decisions are feasible, and they may be sustained through the initial implementation stages, where many reform attempts that do not attract this level of attention face a swift and silent burial.

Without such a crisis, in situations of relative stability a more incremental approach to change efforts is likely to be more politically feasible (Grindle and Thomas, 1991). In such situations, the apparent initial success of reforms may be due to a rather top-down approach to organisational reforms (Grindle, 2004), in which a small group of reformers with strong political backing maintains strong control and hegemony over the content, speed and direction of reform. Effective though this may be as a launching strategy, later resistance to reform may be exacerbated by this approach, as an initial buy-in is not assured from, for example, teachers' unions with respect to an educational reform. Yesterday's solutions may generate today's problems, as Senge (1990) notes.

Even in situations where comprehensive reforms have successfully been launched, they could still take decades to implement, and modifications along the way must be

expected. The end result is often less ambitious and consistent than originally envisaged. This is a normal fate of reforms in both developed and developing countries.

It is therefore factors unique to every particular situation that will determine the feasible scope of change. Among the determinants of the reaction to capacity-development initiatives are the costs and benefits of policy or capacity changes, their technical complexities, and their demands for participation by front-line staff and the general public. Analysis of these factors will help assess if, and to what degree, a broader capacity-development process is actually feasible (Grindle and Thomas, 1991).

#### *Sequencing of capacity-development processes*

The complexity and interdependence of the many factors shaping the environment for CD and CD support has been discussed at length in this document. On the basis of such an analysis, it might be tempting to conclude that CD must therefore also be approached in a comprehensive manner, addressing multiple factors simultaneously.

Indeed, it is important to think about capacity development in a holistic manner, and this is a key message of the ROACH perspective we advocate here. But capacity-development efforts must be sequenced for them to succeed. This is an implication of thinking more strategically, and in a less ad hoc and short-term manner, about capacity development (Unsworth, 2004). There is no right answer to the question of how change should be sequenced, but sequenced it must be.

Cohen (1993) argues that, given limited resources, CD should be restricted to “specific types of personnel critical to effective performance of strategic functions by public sector institutions”. Strategic functions would include: i) use of core economic policy instruments; ii) sector restructuring and policy reforms; iii) enhancing public sector efficiency; and iv) public sector management. While this would address the key functions required for countries to manage their own reforms, these are also areas where skills-oriented approaches focused on individuals may have limited effects.

Bräutigam (1996) advocates a somewhat different strategy. Reforms should be concentrated in strategic agencies (revenue authorities, customs, superintendents, the judiciary), even though deliberately leaving other areas as necessary platforms for patronage and clientelism. This approach was attempted in Bolivia, with some initial success.

Andersson and Isaksen (2002) propose a third sequencing strategy. They reviewed Swedish and Norwegian assistance to public financial management in Africa and found that success can be achieved by starting with core routine processes and subsequently moving to more sensitive issues, such as management development.

There are thus several strategies for sequencing: by selecting particular agencies, particular staff groups, particular functions, or a combination of these. There is, however, no one strategy that applies equally well across all situations.

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

### **9.3 Who Can Lead Capacity Development, and Who Can Stimulate It?**

This section focuses on the issues of commitment and the roles of national actors. The focus on actors as agents of change is important, but it does not, of course, imply that institutional and structural issues are not important too (see Chapter 2).

#### *Commitment is a key condition*

Clear commitment to and leadership of change from those in charge is maybe the single most important factor for capacity development efforts to succeed, as already stated in Chapter 2. This is emphasised in virtually all the literature on developing and developed countries, and on public- and private-sector organisations.

This finding is often taken to mean that before they support capacity development, donors must ensure that an endogenous commitment exists in the organisation(s) that have been chosen for their support. Support must be demand-led, according to the now conventional argument.

But what is the evidence that there is commitment to and leadership of change? On the one hand, commitment is a slippery concept. On the other hand, if a major effort is needed to try to identify commitment for change inside or outside an organisation, then that in itself is probably sufficient to conclude that the necessary commitment does not exist. Consequently, the demand is probably not strong enough to provide a reasonable assurance that one of the necessary, but insufficient conditions for successful CD exists.

The implication of these arguments is that commitment should be visible, rather than something that has to be looked for. Some centrally placed individuals or groups should, at the minimum, demonstrate their intellectual conviction and commitment to change in public. Moreover, they should be seen to make an investment in change (of formal position, of reputation, of political capital, even of self-respect), even though this may risk being lost if the change does not succeed. Being seen to mobilise others to support changes is an important aspect of making such an investment. It indicates that commitment will also be based on a calculus of the po-

tential gains and losses associated with the process, a calculus that few will or should take lightly (Killick et al. 1998, 86-8).

Although commitment is not the only important factor in successful capacity development, it is a central one. Furthermore, this proposition is consistent with the overwhelming evidence from the literature *that capacity development must mainly be a domestic affair in order for it to succeed*. It can be supported from outside; it may even be initiated from outside. But until and when sufficiently powerful *domestic* actors commit themselves to a process of capacity development, efforts to change will not succeed and will not be sustainable.

*The key role of national actors – but who?*

Whose commitment counts? Who can and will promote changes, even fundamental changes, of the way the public sector in a country conducts its affairs? Are some groups more important than others?

*Policy elites* are easily the first to command our attention. This group would normally include senior politicians, ministers and senior civil servants in executive positions in ministries and agencies. They formally approve reform plans or major capacity development schemes, and they manage the organisations which are subject to transformation. They are important in change processes in both developed countries (Pollitt and Bouckaert, 2000) and poor countries (Haggard and Kauffman, 1992).

Why should such elites be interested in reform and change? Rational choice theory, for example, assumes that top bureaucrats seek to maximise their power by increasing their bureaux and budgets and by capturing areas of work from other agencies. It also assumes that politicians in competitive political systems seek to adopt positions that enhance their chances for re-election. If this assumption is correct, it rules out unpopular reforms like, for example, laying off public-sector workers. Some evidence clearly supports this theory, and not only in developing countries. But there are also several examples of policy elites – or parts of them – that seek to serve the public interest in a more altruistic manner. Reform or change may succeed despite the odds in such situations. Committed policy elites can provide initiative, orientation and leadership. Often they also have the capacity to carry out the careful and politically sensitive crafting of the content, timing and sequence of reform. Whether change can succeed may therefore also depend on the individual attributes of the policy elite involved (Grindle and Thomas, 1991, pp. 32 ff.):

- Personal attributes and goals
- Ideological predispositions
- Professional expertise and training
- Knowledge of similar policy experiences
- Position and power resources
- Political and institutional commitments and loyalties

*Civil society organisations.* While it is difficult to perceive comprehensive capacity development without commitment from a sufficiently powerful section of the relevant policy elite, other national actors may be important, too. Civil society organisations are a case in point. They can articulate demands for improved public services and serve as watchdogs over public-sector performance, as well as insisting on transparency and accountability concerning results and the use of funds. But their general importance in relation to capacity development is probably exaggerated, as Grindle (1997) and Tendler (1997) observe. Civil-society organisations with weak constituencies may have a visible presence, but little influence compared to other, less visible power groups in a country. Donors may have given civil society organisations much more attention than they deserve as yet in an instrumental sense.

*Front-line staff* or, more generally, lower-level staff are also often important. Their acceptance or rejection of capacity-development initiatives is crucial (Lipsky, 1980; Tendler, 1997). Some argue that capacity development must be designed and implemented in a participatory manner to ensure that staff (and possibly the customers) of the organisation buy into the process. This is recommendable in some, but not all, cases. Capacity-development processes create winners and losers among staff too. Compromises may be needed to get a critical mass of stakeholders on board from the beginning, and this may blur and extend the agenda, implying that hard choices are being avoided. This can effectively derail a change process before it gets off the ground. An initial top-down approach may therefore be required in some cases, especially when more drastic changes are deemed necessary to enhance capacity.

*Political parties, unions and their leading figures* are often considered much more marginal to capacity development in the public sector than they really are. True, political parties and parliaments in developing countries often play a fairly limited role in between election campaigns. Unions are also often not very powerful. But even if they are not perceived to be part of the relevant CD policy elite, parties and unions are often influential during crises, which are often frequent in developing countries.

*Consultants or the role of change agents.* Despite the important role of national stakeholders in making change possible, experts and consultants, both national and international, can still play important roles in ensuring that organisations acquire access to the relevant knowledge and experiences. Consultants can also act as what is often called *change agents* under the aegis of national *change sponsors*, facilitating processes and mediating conflicts.

#### **9.4 Capacity Development Support by Donors: A Solution in Search of a Problem?**

The emerging paradigm for development assistance advocates the use of sector-wide approaches, policy- or programme-based support and budgetary support. A key ingredient in this paradigm is that although donors may contribute to activities, they should not define or implement them. Donors must stand back from the actual

process. This is also true of their role in relation to capacity development. They cannot force it, impose it, buy it or insist on it – but they can support it. Hilderbrand (2002, 329) summarises this general experience with capacity-development support as follows: “As long as capacity building is just a donor preoccupation, it is likely to have beneficial but marginal effects. Only when developing-country political leaders and citizens themselves value public organisations and institutions...can a firm capacity foundation be constructed.” What role does this leave for donor agencies in capacity development? Two competing views appear in the literature.

One view is that ownership and commitment are both important. Consequently, aid agencies must become more participatory, by using better participatory techniques and by listening more (UNDP, 1997; Land, 2000; Andersson and Isaksen, 2002). However, donor agencies may still serve as the organisers and initiators of CD processes, though they should only play a catalytic role in helping relevant stakeholders to assume ownership and leadership.

The other view is that ownership implies a wholly different and much smaller role for aid agencies. Its proponents (e.g., Bräutigam, 1996; Schacter, 2000a and 2000b) question donor participation in the design and management of change. Aid agencies must therefore withdraw much more decisively from change efforts in developing countries, and only “enter by invitation.” It is not the role of agencies to organise, analyse or design programmes. Rather, they should stick to the analysis needed for their own decisions about whether or not to support what must essentially be domestic processes.

Proponents of the first position would claim that ownership can be constructed and broadened over time, that initial “no-harm” activities sponsored by a donor can prove that the advantages of capacity development offset costs, and that it is possible to support and strengthen groups of reformers, even if they do not have sufficient initial power to define agendas and lead change.

Proponents of the latter position would not eliminate technical and process expertise, but such expertise would be acquired and managed by the domestic partners, not by the donors themselves. Joint analytical efforts involving both donors and national partners could still be productive as part of a dialogue process, but the fine balance between airing viewpoints and imposing them would have to be carefully observed. This is notoriously difficult in asymmetrical relationships, in which donors control resources that will only be made available if the other party decides to proceed with a certain set of activities that are broadly acceptable to the donor. Donor support should therefore be limited strictly to demand-led activities under country leadership. The implication is literally that the national proponents of change must knock on the door of agencies asking for technical and financial support in order to get it.

Waiting patiently for reformers to approach donors is maybe not an attractive option if capacity development is high on the donors' agenda. In the meantime, donors may spend time, energy and funds to (Unsworth, 2004):

- Analyse the particular context of each country and use that as a starting point for considering CD support, rather than presenting a specific list of their own policy priorities. This would give prominence to the feasible rather than the desirable as the starting point.
- Connect their analytical work with that of other partners to avoid practices which may undermine capacity.
- Think and act long-term and strategically in relation to capacity development and change, being less preoccupied with short-term solutions to current problems and with their immediate causes.
- Provide joint learning opportunities between national and international partners on capacity development, and support the strengthening of local institutions for research, policy analysis and information, thus fostering an environment which may support change initiatives.

Donors may also identify a strategic approach to supporting changes in external factors that influence the performance of public-sector organisations. If there is no commitment to and leadership for capacity development within an organisation, initial attention may have to be given to ways and means of increasing the external pressure on the organisation to change.

Such an approach, focusing on changing external factors, is increasingly being adopted by donors. They link future funding to the achievement of certain targets, but leave it to the relevant organisations to take responsibility for achieving these. Targets are often related to outputs or intermediate outcomes (effectiveness), as well as to internal capacity or efficiency factors, such as the quality of financial management. To what degree this new version of conditionalities (or "triggers") is effective for CD remains to be seen (an in-depth discussion of this issue is beyond the scope of this document).

Changing to a more hands-off approach and lowering ambitions to a level compatible with conditions in specific countries will require changes to deeply rooted cultures in most donor agencies. These changes will by themselves provide excellent case material to demonstrate the difficulties involved in capacity development, which demands a change of mindset. Identifying and recognising the difficulties of change in donor agencies should provide a healthy dose of realism and patience when it comes to assisting others to change.

## **9.5 The Power Issues of Capacity Development, and the Dynamic Nature of Change Processes**

Reform inherently involves conflicts because it imposes costs on some and provides benefits for others (Grindle and Thomas, 1991). This is also the case for capacity

development on a smaller scale. It is rarely a win-win situation, even if that is intended.

Losses and gains may often appear at different times in a change process. Losers are often acutely aware of their potential losses and quick to oppose change, while winners may be much more uncertain about their benefits, which may anyway only materialise in the long term. The incentives to protect the status quo may therefore be strong and immediate, while winners may lack clear incentives to organise for change (Grindle, 2004).

When capacity development and reform none the less become possible, it is because the ability and willingness to oppose change varies over time, being influenced by how well proponents and opponents are able to influence the agenda, finding adequate compromises in policy formulation, manage opposition during implementation, and undermine the opposition through familiar techniques of divide and rule, partial concessions, making strategic retreats when necessary, or forceful moves forward when circumstances allow.

Evidently, management of the power dimensions of capacity change demands a focus on strategy and tactics, flexibility, and an intimate knowledge of the arenas in which conflicts are managed, as well as of allies and opponents. Change management includes managing opposition, creating and heralding quick wins, taking advantage of opportune moments, and putting together and maintaining a supportive coalition.

Not all capacity-development efforts need to be as heavily contested as was implied above. But surprisingly many are. This is particularly significant for how change processes are designed and managed. Blueprint approaches that specify the results, activities and inputs before the capacity development process begins, are particularly poorly suited to the dynamics of successful capacity development processes. These are rarely if ever linear, and prescriptive approaches with little flexibility are poorly suited to the reality of rapidly changing needs for inputs, for the modification of activities and results, and even for temporary or permanent modifications of objectives. Unrealistic but bold, highly attractive visions at the start of the process may serve change better than realistic, dull, meticulously calculated targets (Brunsson, 2000).

If aid agencies wish to support CD processes, therefore, it is of crucial importance that they do not demand an unrealistic or counterproductive up-front design and planning phase. It must be possible to modify inputs fairly rapidly so that contractual or bureaucratic formalities do not impede informed flexibility, as required in close dialogue between the agency and the national partner. If agencies wish to be useful partners in such a dialogue, they need a detailed knowledge of the specific context, the organisations, the stakes and the stakeholders, as well as a detailed understanding of the dynamics of change beyond what a paper can provide.

Facilitative technologies may help manage the dynamics of change processes through group-oriented methods, but they cannot replace the need for careful strategic, adaptive leadership by internal management. Information on different facilitative methods can easily be found in the literature (for a good overview, see Holman and Devine, 1999).

## 10. Challenges and Dilemmas in Capacity-Development Support: An Agenda for Learning

Three broad developments in the last decade have changed how we think about capacity development and how donors may support it. There is substantial and extensively documented evidence that traditional technical assistance and the focus on training have failed to bring about lasting capacity improvements (Berg, 1993; Fukuda-Parr et al., 2002; Browne, 2002). Next, there is growing recognition that organisational, institutional and structural factors are important in capacity development (Yusuf and Stiglitz, 2001). Finally, new aid modalities have emerged, such as PRSP, budget support, SWAps and basket funding. They emphasise how important it is that developing countries have the ability to formulate their “own” local and national development goals and processes as part of country-driven strategies. These should focus on targets and outcomes that can be achieved and monitored (Nair, 2003). With respect to capacity development, these broad trends raise new challenges and dilemmas for recipient countries and aid agencies. We deal with four in the following.

### *Focus on long-term organisational capacity development or short-term results?*

The most basic and at the same time most difficult dilemma is to weigh the long-term efforts required to support the gradual development of indigenous capacity against the achievement of development results in the short and medium terms (such as better learning outcomes for more children, better health, economic growth – in short, poverty reduction).

A water authority, for example, that has helped to build and maintain ten new water schemes per year in the recent past is unlikely to increase its output dramatically in the immediate future unless donor support is significantly stepped up. But building ten new schemes per year may be grossly insufficient to reduce poverty quickly. Capacity must therefore either be imported by donors (technical assistance, parallel structures, topping-up of salaries, donor hiring of local staff, separate financial management and planning systems, etc.) or be developed. The latter takes considerable time and is, furthermore, complex, difficult and without a guarantee of success. The former approach may lead to short-term increases in service delivery in certain areas, but decades of aid experience has demonstrated that it does not lead to sustainable and country-wide improvements rooted in domestic capacity.

Yet donors, like recipient governments, politicians and citizens, want quick, concrete and tangible results in respect of public-sector activities. Many such outcomes are now enshrined in international agreements (e.g. MDG) and form the basis of ambitious poverty-alleviation targets under the umbrella of a PRSP. The incentives to go for short-term results are therefore high for donor agencies. They need to demonstrate that “aid works”, and they need to disburse budgeted resources to justify next year’s funds. Recipient governments also face strong pressures to produce results. Their support and legitimacy may grow by association with increases in the

delivery of services, even where these are funded by donors. Conversely, a government may lose support by trying to address structural imbalances and disincentives to performance in the public sector as a preparation for more rapid service delivery later.

Moreover, poverty-alleviation targets may appear both ‘progressive’ and rational. However, seeking to reach them may be too demanding on the organisations and too far away from what they have been able to produce before (Clemens et al., 2004; Tendler, 1989; Unsworth, 2004). Pritchett and Woolcock (2002) make a similar argument. They also stress that a universal needs approach to service delivery has an in-built bias in favour of supply solutions with the public sector as the main delivery instrument.

Consequently, donors and recipient governments often face a clear dilemma: there are strong incentives towards meeting highly desirable development targets, even though this may entail donor interventions that are detrimental to local ownership and the long-term sustainability of capacity development.

Addressing this dilemma usually requires a mixture of remedies. First, there must be an assurance that additional service delivery is being carried out with as few harmful effects on endogenous capacity as possible. Important means are the merging of donor support and the harmonisation of procedures, as well as the maximum use of endogenous organisations rather than of parallel structures. Second, and in parallel, this requires support for CD at central, regional and local levels, through external, internal, “functional” and “political” approaches. Clear exit strategies where parallel systems and TA have been introduced may help. Third, support for service delivery should be linked to agreed targets for increasing budgets to the activity so that support can be phased out over a period. Fourth, if a partner shows little willingness or ability to enhance capacity and assume responsibility, funding should be limited and focus on essential services that target the poorest. This is essentially a position of waiting for better times without penalising the poor. But it is also an acknowledgment of the fact that there are limits to what donors can do on their own.

These remedies will therefore not solve the dilemma, but may merely assist in seeking a balanced way to handle the squeeze. Unfortunately, capacity-development objectives often appear eventually to lose out against service objectives when the accounts are closed and the gains and losses assessed. Incentives to go for quick, tangible results still seem overwhelmingly stronger in both donor and government bureaucracies than incentives to take the long and painful road through organisational capacity development. This goal displacement has been described in the development literature since the early 1980s (Morss, 1984).

#### *Islands of excellence versus broad-based capacity improvements*

Capacity development initiatives are challenging to design and implement in the context of sector-wide approaches. There is often a major mismatch between organisational mandates, budgets and targets. Relationships between key organisations in

the sector (say between central ministries and local governments) are sometimes poorly defined and conflictual. Corruption may be widespread. It is therefore tempting not to address such (public) sector-wide problems of capacity development and instead focus on establishing islands of excellence among poorly performing neighbours. For a period this may be justified, but only if it is part of a deliberate, sequenced strategy of sector-wide improvements in capacity. In sector-wide approaches to development aid, and with the increasing emphasis on poverty alleviation, it becomes important to take a broader view of public-sector capacity constraints and potentials.

In practice, many donors approach this dilemma by “walking on two legs”. On the one hand, they impose different ways of “ring-fencing” their support to sectors or projects (special financial-management mechanisms, close donor supervision, separate reporting systems), and offer intensive capacity-development support to sector organisations. At the same time, they support public sector-wide reforms, often piggy-backing their support on to that of, for example, the World Bank, which often plays a leading role in this area.

*When ownership, commitment and the enabling environment are less than ideal for capacity development*

Ownership, commitment and the environment are normally never ideal for capacity development.

Most developing countries usually have neither a uniformly good nor a uniformly poor policy environment. Apart from the wider discussion of what “good” and “poor” policies imply, countries will therefore typically have “rather good” or “rather poor” policies in various policy areas. Donors themselves may affect policy areas positively or negatively. It is also an observable fact that some public organisations perform better than others, as already argued in Chapter 9.

This mixed picture is quite often related to commitment and ownership, and to the external factors influencing if, how and to what degree CD is feasible. Commitment may exist, but it may not be uniformly strong. Ownership may be half-hearted, the incentives to change weak and diffuse. It is therefore difficult to decide whether to support CD or not. Such support is, in any case, a risky adventure.

The remedies for handling this dilemma include various measures. First, donors must make up their own minds as to what degree of risk they are willing to take. They may also ask themselves whether *they* are not part of the risk problem (illustrated by the fact that the predictability of aid is lower than the predictability of tax revenues). In most situations support for CD is more risky than, say, building schools, even if the schools decay in the long run, and even if children do not acquire useful skills when they attend school. The reason is that capacity-development support does not deliver visible and photogenic results up front, even when it is successful. And whereas donors can control school building fairly tightly, sometimes

by parachuting it in by using their own consultants and contractors, their ability to control CD processes is limited.

Secondly, if commitment and feasibility are in any doubt, capacity-development ambitions and the level of support should be correspondingly modest.

Thirdly, the capacity-development process should be designed and managed so that it can develop its own momentum. It should include a considerable number of activities not directed at the nuts and bolts of organisational strengthening. Instead, it should aim to harness support for a wider process of change both inside and outside the relevant organisations. Donor support for lobbying and advocacy may be more important than support for new computer systems or training courses. Scaling up support may be conditioned by the achievement of public support from key sponsors of change or by the acceptance of potential sources of opposition not to resist change.

Even limited CD support aimed at internal factors in single organisations may not make much sense if the context for sustainable capacity development is very poor (e.g. political crisis, rampant corruption, low public confidence in the public sector). The approach advocated in this paper could then help identify options for working on changes in the broader environment: supporting broad interest-based economic associations of labour, employers, producers and professionals; supporting civil-society think tanks; and supporting service delivery through NGOs which combine service delivery with advocacy and support for the mobilisation of pro-poor groups and voices. It is clear, however, that capacity enhancements are likely to be rather modest under such circumstances.

*When partners disagree: who should have it their own way?*

Recently, one poor country rejected a donor proposal to pump substantial funds (some \$80 million over five years) into capacity development for the public sector with the argument that the programme was badly designed and overly expensive. The donor is a major one, providing much needed funds to address other, much appreciated activities. It is therefore a donor which the recipient does not want to challenge too much, despite the reservations it may have about its offer of support. This illustrates how donors and governments are often faced with a dilemma which translates into a “win-lose” situation. Either the government gets it their way but may, in the case referred to above, lose substantial support. Or else donors get it their way, with, in this case, a possibly wasteful use of funds as the result, or a lack of ownership which undermines results. In both cases, there is not only a winner and a loser, but also the possibility of a poorer relationship in the future.

The solution to this dilemma is as obvious as it is difficult. A partner relationship must be developed and maintained in such a manner that the inevitable negotiations can be conducted as “win-win” negotiations (Fisher and Ury, 1991). This is not achieved in brief meetings which suddenly develop into horse-trading, nor by donor-funded consultants “diagnosing” organisations and prescribing “expert medi-

“... as happened in the case referred to above): it is only achieved by developing trust and a shared view of key constraints on and opportunities for capacity development, inside and outside the organisation(s). ROACH offers a framework for a dialogue on such issues, as well as for joint analytical work under the leadership of those with authority over the organisations.

This requires that recipients and donors are both genuinely interested in obtaining better analytical insights as a basis for decisions about if and how capacity-development initiatives should be launched. This is the minimum joint commitment required, and it is not a small one. It will bring both recipient and donor policies, incentives and operational modalities into the limelight. Part of the challenge is to move the boundaries of what it is acceptable to discuss and include in such analyses. This requires patience, and it does not make sense if ten donors each line up to enter into such a dialogue with an already capacity-constrained government.

Furthermore, both sides need negotiation skills, process-management skills and attitudes that support sensitive investigative inquiries. They also need operational insights into capacity and capacity-development issues. These are not skills which traditionally exist in aid agencies or public-sector institutions. Some aid agencies have sought to train technical experts in these new fields. However, the case for having fully fledged professionals supporting in these areas is probably strong.

#### *A learning agenda for capacity development*

Throughout this document, we have emphasised that capacity development mainly results from endogenous processes in which resource constraints, politics and power, local ownership and leadership and stakeholder pressures are all important. Aid agencies can assist and contribute, but can do little more than that, and ambitions must be restricted to the feasible at the expense of the desired. It is hoped that the results-based approach to capacity change offered here may enhance the conceptual understanding of capacity and capacity development, as well as being of use in deepening analysis and dialogue.

But much more learning needs to take place. On the general conceptual level, the existing literature in political science, organisational theory, economics, sociology and other disciplines has a lot to offer. Development agencies should avoid the temptation to reinvent what has already been invented, and avoid inventing a ghetto lingo of their own which seems to serve more to shield the development community from critical inquiry by others than to deepen insights and achieve better results.

Learning at country levels and exchanging experiences globally is the proper focus at the moment. Though development agencies may wish to focus on learning how they can best support capacity development, a key theme in this paper is our recommendation of an indirect or “external” approach to finding answers to this question. As a first step, we need to understand much more about when, how and through which forces capacity development is constrained and facilitated in devel-

oping countries. That is, we need to learn much more about when and how governments improve and when they do not (Unsworth, 2004).

This is the first question. When more knowledge is available on this issue, then attention can be turned to the second question: what can donors do to do better when supporting capacity development?

## Notes

<sup>1</sup> This paper was originally intended as a fully academic text, with more abstract conceptualising and quotes from the literature. To enhance accessibility, we have abstained from pursuing this initial ambition fully, but have still included references as well as a few notes in each chapter where this has been required to deal with conceptual matters or discuss point of views in references.

<sup>2</sup> We use the concept of the institution to denote a resilient social structure composed of cultural-cognitive, normative and regulative elements providing solidity and meaning to social life, though subject to change processes. This use is adapted from Scott (2001), who offers a broad conception of institutions after listing the definitions employed by institutionalists from Spencer, Durkheim, Weber, Parsons, Mead, Berger and Luckmann, to Giddens. Scott lists five key characteristics of institutions: “- Institutions are social structures that have attained a high degree of resilience; - institutions are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life; - institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines and artefacts; - institutions operate at multiple levels of jurisdiction, from the world system to localised interpersonal relationships; - institutions by definition connotes stability but are subject to change processes, both incremental and discontinuous” (p. 48). We write from a theoretical position widely known as “institutionalism”. March and Olsen (1989) is the first seminal text. See also Scott (2001), Hood (1998). Hay’s “constructivist” position in relation to policy analysis adopts the same “middle-of-the-ground” approach (Hay, 2002). Most significantly in this context, this position includes some fundamentals:

- *Structure or institutions matter* – they are the social, cultural, historical etc. conditions which by definition do not change easily or quickly. But, contrary to determinist approaches,
- *Agency*, or purposeful action by individuals, groups and organisations, *is possible and ultimately shapes structure and institutions* within the constraints and opportunities set by the structural or institutional factors of the moment. In 1852, Marx phrased this in the following manner: “Men make their own history, but not of their own free will; not under circumstances they themselves have chosen” (Hay (2002),p. 117). We thus warn against both cynical and naïve approaches to change.
- *Opportunities for and constraints on action are path-dependent*. Parsimonious accounts seeking to simplify and generalise what works under certain conditions, or simplifying assumptions about human preferences and behaviour, may indicate important trends which actors should take into account in their analysis and be observant of when they act – but parsimonious schemes cannot grasp the specificities and complexities of individual societal or organisational settings. What is known as rational choice theory departs from simplifying assumptions about human utility-maximising preferences parallel to the assumptions underlying neo-classical economics. Applied to public-sector bureaucrats and politicians in liberal democracies, the approach leads to predictions of self-interested behaviour (including the growth of bureaucracy for its own sake, but also rent-seeking) which will not maximise benefits for citizens. The consequential policy prescriptions have become known as New Public Management, the intention here being to introduce competitive pressure, supervision, outsourcing etc. to counteract the perceived negative effects of rational – and therefore selfish – civil servants See, e.g., Niskanen (1971), Tullock (1976). For largely institutionalist critique of rational choice theory, see Dunleavy (1991), Hay (2002), Hood (1998). Both Tandler (1997) and Grindle and Thomas (1991) present evidence of reform processes driven by values, professional beliefs and altruistic motives, which rational choice theory would look at with suspicion. When in this paper we are talking about the “rational” dimension of organisations, we are not referring to rational choice theory, but to rationality in the sense of optimising purposeful action to accomplish the official tasks of an organisation.

<sup>3</sup> These references include books that deal with change from a private sector perspective (Kanter, 1982; Senge, 1990; Robbins and Finley, 1997). Notably, the key change drivers – and first-level obstacles – identified are the same in literature dealing with private-sector and public-sector change. The pattern of relative persistency and frequency of obstacles to change may vary more, as well as the more deeply rooted constraints framed by the difference in incentives provided by a market-oriented versus a hierarchy-oriented governance structure.

<sup>4</sup> See Scott (2003) for a broader introduction to the open-systems approach to organisations, and Harrison (1994), Harrison and Shirom (1999), for more detailed and operational accounts of the open-system approach. Scott (2003) proposes the following definition: “Organisations are congeries of interdependent flows and activities linking shifting coalitions of participants embedded in wider material-resource and institutional environments” (p. 29). Harrison (1994) identifies seven key characteristics of the model: “1) External conditions influence the flow of inputs (resources) to organisations, affect the reception of outputs, and can di-

rectly affect internal operations [...]; 2) Organisations use many of their products, services and ideas as inputs to organisational maintenance or growth [...]; 3) Organisations are influenced by their members as well as their environments [...]; 4) The eight systems elements [inputs, outputs, technology, environment, goals and strategies, behaviour and processes, culture, structure] and their subcomponents are interrelated and influence one another [...]; 5) Organisations are constantly changing [...]; 6) An organisation's success depends heavily on its ability to adapt to its environment – or to find an environment in which to operate – as well as to tie people into their roles in the organisation, conduct its transformative processes, and manage its operations [...]; 7. Any level or unit within an organisation can be viewed as a system [...]" (pp. 30 f). Morgan (1986), in one of the most highly acclaimed introductions to organisational theory, also describes the open-systems approach. Hilderbrand and Grindle (1994), Grindle and Hilderbrand (1995), Grindle (1997) and Hilderbrand (2002) all adopt the same basic perspective on organisations when writing about developing countries, though they do not explicitly invoke an open-systems approach. The tradition of results-based management is an extension of the classic scientific-management tradition of Taylor, and was first termed "Management by Objectives" by Peter Drucker.

<sup>5</sup> Power, interests and politics in public-sector organisations are a core field of attention in political science, public administration theory and institutional economics. We follow Hay (2002) in defining politics as closely related to the distribution of power and influence. Morgan (1986) offers a good overview from an organisational analysis point of view. Power is often seen as the ultimate means of solving conflicts in organisations, including conflicts over change options. Mastenbroek (1995) has described conflict management, paying close attention to power aspects, and our distinction between the "rationalist" and "political" perspectives owes a lot to his book, though the fundamental questioning of rationalist perspectives on organisations is at the heart of contemporary political and organisational science Brunsson (2000) is a refreshing contribution in the latter category.

<sup>6</sup> New Zealand is rated as having applied the most "hard-nosed" version of RBM, with extensive "government by contract". Performance-related pay, performance measurement and devolution are the normal key ingredients of RBM. In the development aid branches of government, this is often defined in narrower terms: for example, the OECD/DAC officially defines RBM simply as "a management strategy focusing on performance and achievement of outputs, outcomes and impact". Applying a common-sense test to this by seeing whether the opposite statement might have its proponents, it is clear that this definition is uncontroversial, though it adds little in the way of specificity to the concept. As noted, RBM is a development of traditional scientific management approaches. For both positive and critical assessments of RBM in the development assistance context, see Morgan and Qualman (1996), Binnendijk (2000), Kusek and Rist, (2002), Meier (2003), Schick (1998). Critical assessments of the concept and practices in relation to other public administration or management traditions can be found in Hood (1998), Pritchett and Woolcock, (2002), and Robbins and Finley (1997).

<sup>7</sup> As mentioned in Note 2 (above), the influence of contextual factors is a cornerstone in institutionalism. One important notion is that the context, or environment, is not something separate from an organisation or from actors: institutional factors, values, beliefs and norms penetrate and even constitute individuals and organisations, and "construct" – or give meaning – to the social world (Scott and Meyer, 1994, deals explicitly with this theme). This is at variance with more simplistic approaches, such as the Logical Framework, which makes a clear separation between what is "external" and "internal", and tends to assume that there is much greater autonomy and space for action and decision-making within a project (or within another type of organisation) than institutionalist approaches do.

<sup>8</sup> A good, readable and practically oriented account of this is provided by Leonard and Strauss (2003).

<sup>9</sup> Cf. Marquette (2003), who offers an excellent critical analysis of this debate.

<sup>10</sup> Strictly speaking, "capacity" in this usage is the different parts and pieces – the machinery, staff, raw materials, formal and informal rules, supervision and feedback mechanisms etc. In principle, capacity is static in this use of the term: figuratively speaking, only when the factory bell sounds and the wheels begin to turn is the capacity transformed into performance and outputs start coming out. We are not fully consistent in this use of the term in the text, amongst other things because we also refer to alternative uses of the concept, and because it does not necessarily add value in the present context. "Performance", which we mainly use to denote processes, is thus often used synonymously with "outputs" (e.g. in much of the RBM literature as discussed in Chapter 4). In our strict usage, performance is the process leading to outputs.

<sup>11</sup> Weisbord's model can be seen as "six empty boxes" into which analysts – whether external or internal – can sort their observations for a subsequent separate discussion of each box and of the interrelationships between the boxes. Alternative models often offer the same, with a different "cut of the cake". But the difference between the different models need not be trivial: they will normally draw attention to certain aspects at the expense of ignoring others. Other theorists will put more effort in presenting models which claim to explain how organisations work or should work. Here are two excellent examples. Henry Mintzberg's famous

*Structure in Fives: Designing Effective Organisations* (Prentice-Hall, 1983), where he argues that the eternal challenge for all organisations, namely to balance the division of labour with effective coordination, is met by five basic coordination mechanisms between five basic structural elements of organisations, resulting in five basic types of organisation. The other example, Charles Handy's *The Gods of Management* (Souvenir Press, 1978), vividly describes four basic organisational cultures (power-oriented, role-oriented, task-oriented and person-oriented), and argues that they can all work depending on their environment and the degree of fit between culture and staff.

<sup>12</sup> According to a broader theoretical perspective drawn from policy science, the preference for certain types of interventions is clearly linked to perceptions about the underlying nature of the relationship between state and society. This is illustrated in the table below (Hay, 2002, Hill, 1997, Grindle, 2004):

**How to promote change: the links between basic conceptions of the state and agents, and action perspectives for donors**

Basic underlying concept	Key determinants of effective policy change	Key actors	Key modality to support change
Society-centred: the state has little autonomy vis-à-vis power elites and/or dominant interest groups. The focus is on competition between classes or groups.	Changes in power or coalitions of dominant interest groups.	Social classes, ethnic groups, interest groups largely outside the state – policy elite behaviour is dependent variable.	Coalition building outside government, advocacy, “civil society strengthening”.
Public choice: both citizens and public officials are driven by self-interest and seek to extract rent and capture benefits.	“Strategic calculus” of public officials to stay in power, change responds to needs to serve powerful groups, thus maintaining political support. In developing countries, this leads to corruption, instability, successive regime changes.	Key officials and politicians, and their external patrons and clients.	Limit the role of the state, outsourcing, and private sector service provision. Quasi-competition and supervision to control civil servants.
State-centred (rational actor, bureaucratic politics or state interest models): state/policy elites have considerable autonomy.	Policy elites may be “bounded rational actors”, seeking to satisfy or produce incremental changes.	Policy elites in their narrower organisational confinements or as players in bureaucratic politics – where you stand is where you sit – or defending autonomous state interests, also against strong men seeking to expand autonomy.	Support certain players (public organisations and individuals, “reformers”) based on analysis of “the game”.
Policy elite acting in their context; top-down reform and change possible.	Policy elites able to set agenda and shape reform processes, largely within the state, based on their personal background and their perception of the current context.	Senior civil servants and politicians.	Socialisation of policy elites, long-term education and training, expert advice and analytical support to reformers.
Concrete front-line service delivery is effectively what public policy is about, rather than top-level formulations. Bottom-up perspective.	Street-level bureaucrats reconcile formal policy statements with the real possibilities as they know them.	Front-line workers (teachers, health staff, police).	Basic training and socialisation of front line staff, work with unions, grassroots exchange programmes and network building.

We would like to warn against leaning too much on one basic concept, because there is little evidence that this will lead to more effective support for change processes. It will be noted that what is perhaps the most frequent approach adopted by donors – the head-on intention to develop capacity in specific organisations through training, TA and the supply of equipment – does not appear on the list. Literature on political science offers no underlying conceptual frameworks supporting this donor approach, maybe because, if it did work as intended, there would be no reason to have something called political science.

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