



GUIDANCE NOTE ON DANISH SUPPORT FOR CAPACITY DEVELOPMENT

August 2006

I. Introduction

Capacity development (CD) is an integral part of Danish development cooperation, whether it be programme support, components of programmes or single projects. Accordingly, assessing institutional, organisational and human capacity is a key element in the preparation of all types of development cooperation.

In an evaluation¹ of CD in Danish-supported programmes, the interventions screened were shown to have *weak analytical underpinnings*, both regarding the targeted organisations and the context in which they were operating. The CD support focused strongly on the *technical, functional aspects* of the internal workings of organisations (skills development, general management training, structures, procedures, and mandates), while there was typically *little analytical attention paid to the external context and political issues*. Targets, outputs and indicators for CD support were generally not specified, and only to a limited degree linked to specified output/outcome changes of the recipient organisation. Consensus with partners on how to measure or evaluate the results of the CD support was rarely established prior to implementation.

According to the Paris Declaration on Aid Effectiveness², the capacity to plan, manage, implement, and account for results of policies and programmes is critical to achieving development objectives. CD is the responsibility of partner countries, with donors playing a supportive role. In the declaration, *partner countries commit to* integrating capacity strengthening objectives into national development strategies, and to pursuing their implementation through country-led capacity development strategies where needed, while *donors commit to* aligning their analytic and financial support with partners' capacity development objectives and strategies, to making effective use of existing capacities, and to harmonising support for capacity development accordingly.

Against this background, the *objective* of the present guidance note is to provide staff at Embassies and Headquarters as well as consultants with an easy-to-apply assessment tool for the planning and preparation of CD interventions in programmes and projects supported by Denmark³. In line with the commitments of the Paris Declaration, capacity assessments should, to the extent possible, be carried out jointly with partners and other donors. In that respect, the present note serves as a reference paper, which can be used by staff and consultants to ensure that CD interventions are appropriately assessed. The note can be applied as a checklist to see whether key aspects of capacity development analysis have been properly addressed. And hopefully, it can help identify areas where further assessment should be carried out.

While the note does not pretend to cover all aspects of the complex field of CD, hopefully it will serve to inspire staff and consultants working with capacity development in their day-to-day job. Comments on the note are welcome and should be forwarded to bft@um.dk. To ensure consistency with the upcoming strategy for good governance, the note is expected to be revised in the middle of 2007.

¹ The evaluation reports and the paper "A Results-Oriented Approach to Capacity Change" Danida, February 2005, which has informed this guidance note, can be found on www.evaluation.dk under 'other reports/capacity development'.

² Paris Declaration on Aid Effectiveness. Ownership, Harmonisation, Alignment, Results and Mutual Accountability. March 2005.

II. What to consider when making an organisational capacity assessments⁴

The organisation as the unit of analysis

The unit of analysis in this guidance note is the individual *organisation*, for which CD is being considered as part of Danish-supported programmes.

In most cases, sector or thematic programmes will support a number of organisations, which might be partly interlinked, even subordinated to each other. Moreover, a number of the external factors (structures, institutions and organisations/persons) will be common to all organisations. However, the same external factors might impact organisations very differently, depending on the internal dynamics of each organisation. Therefore, a specific assessment must be carried out for each relevant organisation.

Focus on outputs

An organisation's capacity is defined as *the ability of the organisation to perform appropriate functions efficiently, effectively, and sustainably in pursuit of organisational goals and outputs*.

The effect of CD assistance should be measured against the *outputs* delivered by each organisation, and benchmarks and targets should be designed for changes in these outputs.

There are four key reasons for focussing on outputs:

- Firstly, the outputs resulting from increased capacity must contribute to development. Thus, focus should not be on inputs or activities (training, OD etc.) or broad impacts, which can be difficult to measure, but on the specific output that the organisations aim to produce more efficiently and effectively (e.g. health services, teacher training, national statistics).
- Secondly, focusing on outputs enables identification of target organisations for capacity development, and of the relevant context factors.
- Thirdly, changed outputs are the immediate effect of capacity development. If CD activities do not contribute to quantitative or qualitative changes in organisational outputs, they should be reconsidered, changed or stopped.
- Fourthly, tracking and assessing specific output changes helps organisations learn how to improve capacity, and helps provide a clearer basis for political accountability.

Factors that influence organisational change

When analysing organisational change, it is important to consider both *internal* and *external* factors. Factors external to an organisation are often powerful drivers of organisational capacity change, and often provide incentives and pressures for organisations to initiate internal changes that may enhance capacity. External factors, however, may also be important constraints to change.

⁴ The following sections are primarily based on 'A Results-Oriented Approach to Capacity Change', Danida, February 2005 (www.evaluation.dk 'other reports/capacity development').

Furthermore, both “political” factors (e.g. commitment to and leadership of change processes; power to push or pull changes through; stakeholder pressure) and “functional-rational” factors (e.g. legal mandates, organisational structure) must be considered. Political factors are often *as important or more important* than functional-rational factors.

The table below provides a framework for analysing factors that influence organisational change, positively or negatively.

Table 1: Four major options for organisational change

	Functional-rational dimension	Political dimension
Internal dimension	<p><i>Getting the job done</i></p> <p>Focuses on changes in task-and-work system <i>within</i> the organisation.</p> <p>Most donor interventions have been in this category, which includes skills training, organisational restructuring, human resource development etc.</p>	<p><i>Addressing power relations and accommodating interests</i></p> <p>Focuses on <i>internal</i> changes in power and authority distribution and pursuit of different interests.</p> <p>Interventions include hiring and promotions based on merit, building internal coalitions for change, introducing performance-based payments, actively discouraging rent-seeking.</p>
External dimension	<p><i>Creating an “enabling environment” for doing the job</i></p> <p>Focuses on how changes in <i>external</i> factors and incentives will affect the task-and-work-system dimension of organisational capacity.</p> <p>May include protecting certain functions (e.g. internal revenue, customs, central banks) from political influence and poor working conditions, ensuring external audits, focussing on outputs etc.</p>	<p><i>Forcing change in the internal power relations</i></p> <p>Focuses on how changes in <i>external</i> factors and incentives will affect the dimension of power and authority distribution, conflicts and pursuit of different interests in the organisation.</p> <p>Examples include the strengthening of civil-society organisations or of political accountability, building external coalitions for change, strengthening the media’s watchdog role.</p>

All four dimensions must be included in a CD assessment. Change processes may focus more on one perspective than another, but constraints and opportunities may be overlooked unless all dimensions of capacity change are taken into account. Thus, a narrow focus on introducing

“technical fixes”, in response to what *also* stems from underlying constraints in power and incentive structures, is usually doomed to failure.

The distinction between the “functional” and “political” perspectives is not clear-cut. Any “functionally” oriented intervention is likely to have implications, which benefit some but are detrimental to other aspects. 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.

Similarly, internal and external factors are interrelated: identifying problems inside an organisation does not automatically imply that these should be mostly or exclusively addressed through an “internal” approach. Internal capacity problems may often have to be tackled by seeking to influence those external factors that shape the internal capacity.

III. Capacity assessment during the identification, formulation and appraisal phase

In the following, a number of relevant questions are raised. These can be asked when screening the need for CD during the identification, formulation and appraisal phase of Danish-supported programmes. The list is not meant to be exhaustive, but should rather serve as inspiration when addressing the issue of CD as part of the requirements set out in the Guidelines for Programme Management.

IDENTIFICATION PHASE

Mandate

1. Does the proposed capacity development assistance support the most relevant organisations, that is: the organisation(s) which most appropriately and efficiently (e.g. within the sector/thematic area) can produce the outputs needed to achieve the overall development goal (improved service delivery, poverty reduction etc.)?
2. Are the goals and mandate of the identified organisation(s) clearly defined, and in line with overall national policies?
3. Are outputs to be produced by the organisation in question clearly defined? Are targets and benchmarks set for achieving these outputs? Is there a consensus on the changes in outputs to be achieved over time? Is there a common understanding of the time horizon of the CD support, and of possible exit strategies?
4. Do the available resources (human, financial etc.) seem to match the need (as formally stated)?

Internal factors

5. Has the task-and-work system (strategy, organisational set-up and reward mechanisms) been analysed (aspects which might further or hamper the production of outputs)?
6. Have potential internal conflicts regarding interests, power and goals been examined (conflicts which might further or hamper the production of outputs)?
7. Do informal or real goals, mandate and outputs exist which differ substantially from those formally stated?

Analysis of external factors: the functional dimension

8. Which external factors in the environment of the organisation (reform processes, structures, institutions, organisations or individual persons) influence the task-and-work system of the organisation and its ability to produce the defined outputs?

9. Are changes in external factors likely to occur? Are influential external factors likely to (i) provide incentives for and further the production of outputs, (ii) provide disincentives for or hinder the production of outputs, (iii) have an adverse impact on the production of outputs? (Have these factors been mapped out?)
10. Which of the above external factors can be influenced by the organisation, and which may only be appreciated by the organisation?

Analysis of external factors: the political dimension

11. Which external factors of the organisation (reform processes, structures, institutions, organisations or individual persons) have the potential (and interest) to influence the organisation (and its goals, mandate and outputs)?
12. Are changes in external factors likely to occur? Are influential factors and stakeholders (i) likely to further a clearer mandate and greater availability of the appropriate resources, (ii) likely to do the opposite, (iii) likely to clash due to conflicting interests? (Have these factors been mapped out?)
13. Which of the above external factors can be influenced by the organisation and which cannot?
14. Does the organisation (formally or informally) seem to have an understanding of the external factors, and can the likely impact on the organisation be foretold? (Including both the political and functional dimension.)
15. Does the organisation (formally or informally) have a strategy (and the will and resources) for dealing with those external factors that it may potentially affect? (Including both the political and functional dimension.)

FORMULATION PHASE

16. Are changes in outputs to be supported by the programme clearly defined, and do they reflect the overall objective and mandate of the organisation?
17. Can a set of CD baseline indicators be established to measure the outputs? Have the changes in outputs to be achieved, and the corresponding indicators at specified times, been agreed upon by the partner organisation(s)? And has it been agreed how to monitor and review the implementation process?
18. Is the delivery of the outputs supported internally in the organisation, or can conflicting interests and incentive structures be identified? In the latter case, have conflicting interests and incentives been outlined and assessed?
19. Do informal goals and outputs exist which differ substantially from those formally stated? To which extent is this due to internal and/or external factors? (Can potential external factors be influenced?)

20. Has a process been defined towards further clarification of goals, mandate and outputs? Is correspondence ensured between formal and informal goals/outputs? (Taking both internal and external factors into consideration).
21. Has all four dimensions of organisational change (internal/external and functional-rational/political) been sufficiently considered for inclusion in possible strategic CD support?
22. Has the proposed technical assistance, if any, been designed following the principles of the TA Policy Paper⁵? In particular, has pooling of TA with other development partners been considered?
23. Does the proposed support strategy address the issues proved by experience to be crucial for successful CD, namely: (i) clear commitment to and leadership of the process, (ii) appropriate sequencing, creation of quick gains and long-term time horizon, and (iii) management of opposition to change?
24. Has the proposed CD support strategy been aligned with national CD strategies, and harmonised with CD support from other development partners? Has a time horizon and exit strategy for the CD support been agreed upon?

APPRAISAL PHASE

25. Have thorough institutional analyses been carried out, addressing all dimensions of organisational change?
26. Is the proposed CD support part of a joint CD support strategy agreed by the partner organisation(s) and the other development partners?
27. Are goals and outputs clearly defined (and indicators established), and has a consensus been established on how to monitor the results of the CD support?
28. Are risks and assumptions clearly analysed, so as to serve as a point of reference for annual reviews and on-going analysis of progress and change in external factors?
29. Is the organisation likely to produce the proposed outputs, taking the external and internal environment into consideration? (Bearing in mind functional incentive structures and political interests.)
30. Has consensus or agreement on how to evaluate the results of the CD support, when to evaluate, and by whom, been established?

⁵ Technical Assistance in Danish Bilateral Aid – Policy Paper, Danida, February 2004 (www.amg.um.dk under ‘policies and strategies’)

IV. Further readings of relevance to CD assessments

The literature on CD assessments is extensive. The note “A Results-Oriented Approach to Capacity Change” Danida, February 2005, has provided important inputs to this guidance note⁶. DFID has produced a sourcebook with a toolkit, which addresses the broader issues of CD⁷. The World Bank report: “Building effective states forging engaged societies”, September 2005, analyses four decades of experience of capacity development in Africa, including recommendations on how the Bank should tackle CD in the future. A recent paper by OECD/DAC “The challenge of capacity development: Working towards good practice” looks at past experiences of broader CD interventions, and identifies key issues relevant to future CD.

At the country level, a number of general documents are relevant when identifying strengths and constraints of the national system related to public sector management, including public financial management, procurement, etc. Below is a list of key documents, mainly studies and standard analyses, which are regularly updated and are important to understanding the “macro environment” in which CD must be assessed, developed and monitored. In addition to these, programme documents and progress reports for macro-reform programmes (e.g. public service reform programmes, decentralisation programmes, etc.) provide valuable contributions to the understanding of factors external to a specific organisation being studied.

Title and link	Content	Remarks
Country Financial Accountability Assessment (CFAA) PEFA	Assessment of a country’s public financial management system, with particular focus on a detailed assessment of accounting and audit systems: laws, regulations, procedures. Also broader assessment of the financial sector. Produced by the World Bank (in collaboration with other donors).	Provides a snapshot of systems and procedures at a given moment in time – no assessment of reform programmes underway. Regular updating of CFAA is being replaced by a comprehensive set of indicators (PEFA), which are monitored annually or bi-annually.
Country Procurement Assessment Review (CPAR)	Assessment of a country’s public procurement system: laws, regulations, procedures. Produced by the World Bank (in collaboration with other donors).	Provides a snapshot at a given moment in time. A few elements of procurement are included in PEFA indicators and

⁶ www.evaluation.dk under ‘Other reports/capacity development’.

⁷ DFID (2003) Promoting Institutional and Organisational development. A Sourcebook of Tools and Techniques.

		monitoring (see above). Currently, a full set of indicators of procurement objectives is being elaborated through the OECD/DAC.
Public expenditure review (PER)	<p>Review (retrospective examination) of public expenditure: aggregate fiscal framework, strategic allocation between sectors, efficiency and effectiveness of expenditure. The contents vary, as selected topics are often dealt with in more detail.</p> <p>Produced by the World Bank (and other donors) at regular intervals in most countries.</p>	In some countries (e.g. Tanzania, Uganda) produced by country authorities as part of annual budget preparation. The WB (and other donors) conduct an 'external evaluation' focusing on selected key issues.
Medium Term Expenditure Framework (MTEF)	A country's medium-term strategic plan for allocation of overall financial resources (often 3-year rolling plan). Typically focused on translating PRSP objectives into annual budgets.	Nationally-produced document (by Ministry of Finance)
Poverty Reduction Strategy Paper (PRSP) – and background analyses	A country's overall medium-term plan for poverty reduction, setting out areas of priority for policy action. In some countries, this is a sub-set of an overall development plan, in others basically the entire development plan. Typically, a system of indicators for monitoring poverty reduction outcomes/impact is linked to the PRSP.	PRSP available in each country or the WB. Annual progress reports on PRSP implementation available in each country. Typically, second-generation plans focus more widely on capacity development issues.
'Drivers of Change' studies, power studies, or the like http://www.gsdr.org/go/topic-guides/drivers-of-change	Studies attempting to describe who the 'change agents' in a country are, whether inside or outside government. Describes both the formal and informal power structures in a country.	Typically initiated by DFID and possibly other bilateral agencies.
Poverty and Social Impact Assessment (PSIA)	Assessments attempting to estimate the poverty and social impact of a particular policy initiative. Contents and depth of analysis vary greatly from one study to another.	Driven by the WB and IMF; other partners can participate.

