



Capacity Development und Aid Effectiveness

Discussion Paper in preparation for the High Level Forum on Aid Effectiveness in Accra (September 2008)

1. A new consensus on capacity development

Despite promising progress in recent years, the international community still has to step up its efforts in order to achieve the Millennium Development Goals (MDGs) by 2015. A scaling-up of ODA and an increase in aid effectiveness are crucial for making international progress toward poverty reduction and sustainable development. To make cooperation in the field of development policy more efficient and effective, capacities – meaning skilled people and professional organisations, capable structures and enabling environments - must either already be in place, or need to be developed in partner countries. What is meant in this context are specific partner-country capacities for the design, steering, implementation and monitoring of reform processes as well as for reaching the MDGs. German Development Policy supports capacity development (CD) as a key development goal in partner countries.

The significance of capacity development in the context of the aid effectiveness agenda is now recognised by partner countries and development partners alike. This consensus is important for stepping up joint efforts to design, steer and implement aid more effectively. The present paper makes a contribution to the debate on capacity development in the context of the Paris Declaration on Aid Effectiveness. The paper addresses three key questions:

- What are the distinguishing features of capacity development, and what does this mean for effective CD support? (Section 2)
- What partner-country capacities are needed in order to implement the five principles of the Paris Declaration? (Section 3)
- What instruments and approaches might donors apply and how might they adjust their existing practices in order to promote the development of these capacities particularly effectively? (Section 3)

2. Distinguishing features of effective and sustainable capacity development promotion

On the understanding of capacity development in German Development Policy

The paper "The Challenge of Capacity Development: Working towards Good Practice" adopted by the OECD-DAC in 2006 forms the international frame of reference for definitions of CD and related terms. It also provides the conceptual basis for CD in German Development Policy. It defines "capacity" as "the ability of people, organisations and society as a whole to manage their affairs successfully."¹ Capacity development "is understood as the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time." Promotion of capacity development is "what outside partners – domestic or foreign – can do to support, facilitate or catalyse capacity development and related change processes."

In other words, the term "capacity development" denotes country-owned and country-led development and change processes. The support of these processes is to be considered a success when the cooperation between donors and partners helps enable the latter to initiate and steer sustainable change processes, and achieve their development objectives on an increasingly self-reliant basis.

This basic understanding of capacity development reflects a number of premises that are being increasingly acknowledged in development cooperation in general: a firm political will to reform and visible reform initiatives in partner countries, combined with comprehensive and broad-based participation in these reform processes, are now considered essential if sustainable development is to take place – and if these processes are to be effectively supported by donors. The shape and form of this cooperation in partnership strongly influence the results it generates.

The endogenous change processes that are termed "capacity development" are usually complex, multi-layered, dynamic and long-term, which means that their outcomes can only be planned to a limited extent.

In the case of more comprehensive, systemic change processes the political economy of a country plays an important role, as a result of which power relations and interests come into play. It is therefore crucial for the sustainable success of these change processes to ensure that the relevant actors receive comprehensive and continuous support.

¹ The OECD-DAC paper refers to the relationship between capacities and performance (p. 12). The definition describes capacities in the first instance non-judgementally; they are important only as determinant factors that make possible a strong performance in relation to developmental goals and the MDGs.

Capacity development embraces different, interlinked levels: the enabling environment, macro and sector policy, the institutional set-up, the level of organisations and the level of individuals. Capacity development also takes place at different geographical and administrative (national, regional and local) levels. The interplay of levels and the interaction between different stakeholders (governmental, private sector and civil society) generate impetus that affects the further course of capacity development in a partner country.

What does this mean for capacity development support?

Given the complexity of capacity development as outlined above, one-size-fits-all support measures are bound to fall short of the mark. The international donor community faces the challenge of designing its development measures and inputs such that they are more closely aligned with particular partner-country needs, and provide more effective support for country-owned capacity development. In the following section a few basic principles are discussed that in German Development Policy's experience have proved particularly effective when supporting CD.

It is first of all crucial to design cooperation in a way that partner-country reform processes are strengthened. Here it is possible to enhance the will to initiate change processes by creating incentives for internal reforms, and by providing complementary CD support for decision-makers and for stakeholders calling for reform in their country. In line with the spirit of the Paris Declaration, the cooperation should be designed on the basis of mutual partnership and joint responsibility for achieving the agreed development goals. It must recognise partner-country ownership, while incorporating binding agreements based on the principle of mutual accountability. The use of partner systems and structures to the greatest extent possible enhances partner-country ownership and will strengthen the capacities of these systems and structures further. Thus, shaping cooperation as a strong partnership between partner country and donors and working towards making full use of partner systems and structures are important guiding principles for effective contribution to the capacity development of partner countries.

Furthermore, to provide effective support for partner capacity development, donors must address partner needs and respond to demands of the partner country. Existing partner capacities and CD initiatives need to be the starting point wherever possible for external CD support. When providing support, development partners must pursue an appropriate, flexible and process-oriented approach. Knowledge of the specific context (political, economic, social and cultural conditions as well as formal and informal power structures) is a key prerequisite

to design external donor contributions such that they satisfy the demands of the respective country capacity development agenda. This agenda should be incorporated into strategies and policies on the basis of explicit CD objectives. Needed specific knowledge of the respective context is created above all through local presence, relationships of trust, long-term involvement in the support of reform processes and policy dialogue in partnership.

"Any agenda for change needs agents for change." – This sentence expresses the need to identify change agents and champions of change in order to effectively support change processes. These can be individuals, organisations (or individual units within organisations), and/or formal or informal institutions and rules. In programmes and activities to support capacity development, political decision-making structures at all levels as well as civil society and private sector stakeholders and the interlinkages between these different stakeholders should be taken into account. Especially when support for and commitment to reforms among political decision-makers is low, cooperation with other actors can generate stronger demand for reform.

It is important for external actors to keep the political dimension of CD in mind, so that when supporting CD they do not focus only on technical aspects and in so doing overlook important factors for the success or failure of capacity development. Special importance must therefore be attached to the political, economic and social frameworks, as well as to the systemic governance and incentive structures in place in partner countries. Experience has shown that CD approaches which focus on isolated individual elements while neglecting their interactions with other systemic levels are inadequate and therefore ineffective. This holistic view of capacity development is a key qualitative leap forward and has led to the conceptualisation of integrated approaches to support capacity development.

3. Capacity development – key to implementing the aid effectiveness agenda

As shown above, capacity development encompasses complex processes that usually involve a large number of actors at different levels. To support these processes effectively and in line with demand it is important – as German Development Cooperation's experience has shown – to combine a range of complementary instruments on a situation-specific basis within the scope of a coordinated approach. This also applies when supporting capacity development for implementation of the Paris Declaration.

The five principles of the Paris Declaration - ownership, alignment, harmonisation, managing for results and mutual accountability – are analysed below from a CD perspective: What concrete capacities are required to implement the respective principles? Points of entry are

then identified for donors and implementing agencies to support partners in developing these capacities. The comments provided show how each principle of the Paris Declaration entails an intrinsic and comprehensive CD agenda. They also show how different instruments and approaches have to be combined to support each of these agendas in line with demand and on a context-specific basis. To become more effective in delivering CD support to partners, donors too need to change their approaches. The needed changes in donor practice are also briefly outlined for each principle.

Ownership

Partner countries assume an effective lead role in their development process and coordinate inputs to the achievement of their development goals. The ownership principle is the fundamental prerequisite for aid effectiveness - without ownership there can be no effective aid for sustainable development. In the debate surrounding the Paris Declaration, ownership is now understood in the more precise sense of democratic ownership, highlighting the importance of participation in national development processes by various stakeholders within a society. Ownership is also understood not in a monolithic sense, but as a continuous process in which political will, an enabling environment, democratic support, incentive structures etc. combine to generate impetus for reforms.

The close link between ownership and capacities has been emphasised at several points. In this context the OECD-DAC paper on CD quoted above states that: "The cornerstone of contemporary thinking about aid and development effectiveness is country ownership. Yet country ownership of policies and programmes is premised on the capacity to exercise it. Ownership will not begin to emerge in the absence of sufficient local capacity."²

► Which capacities underpin effective ownership?

For partner countries, exercising ownership in the form of political leadership means defining and working toward their own development goals. In the first instance this requires among other things capacities for negotiating and defining their positions on complex issues across society, which implies meaningful interaction with relevant stakeholders (namely parliament, sub-national levels of government, non-governmental actors etc.) and managing constructively conflicts of interests. In order to operationalise their positions into strategies and policies and transforming these into specific reform processes and donor supported programmes respectively, also planning capacities are required. The strategies and the reform projects that emerge must be supported by the largest proportion of the population

² OECD-DAC (2006): The Challenge of Capacity Development. Working towards good practice, p. 16.

possible, which means they must be made accessible and explained to the population through public communication channels. This alone requires major capacities for participatory governance. Development partners should support the development of these different capacities among various government units and ministries through advisory services, in-process consultancy, public service reform and strategic human resource development, in order to strengthen the partner's lead role in development cooperation.

Furthermore, implementing capacities are required in order for partner countries to take the lead in development processes. Depending on the type of programme, capacities are required for example for identifying suitable approaches, for procuring goods and services, for monitoring adequate, sound and timely execution etc. Implementing strategies and programmes in various policy fields also requires capacities for corresponding budget management and delivery of funds. This often requires the development of capacities for improvements in the fiscal system, budget transparency, internal and external auditing, and the preparation of medium-term financial plans. In order for national and sectoral strategies and programmes to be implemented, the relevant public authorities must also possess the capacity to align decision-making with policies and strategies of the downstream levels and key stakeholders. All the concerned levels of the administration must also be able to break down and operationalise the directives that are then binding at their level and within their sphere of influence. This can be achieved e.g. through training measures, information campaigns, changed procedures, new staff profiles, internal restructuring etc. From the outset the strategies and programmes must contain measurable and meaningful indicators that allow monitoring. For the monitoring process itself, resources must be planned, data must be collected and analysed, and adjustment processes must be implemented. This also involves capacities needed for implementing the principle of "managing for results" (see below).

Democratic ownership means (inter alia) that stakeholders possess the capacity to formulate their interests and articulate them within political processes. Dialogue and consensus-building between governmental and non-governmental actors need an effective frame to take place. Special responsibility rests with the partner governments as they are the ones that must demonstrably initiate and steer these processes.

The effective exercise of country ownership of development and political processes requires capacities within the public sector, civil society and the private sector. To generate sustainable results, CD for the public sector must not only create the conditions described above, but must also take into account issues of internal incentive and governance structures, which are also often influenced by external actors.

► Requirements on donors:

For donors to take partner ownership of reform processes seriously, they must share the understanding of aid as cooperation in partnership. Donors must seriously ask themselves whether they need to adopt a less dominant posture in cooperation with partner countries, and create space for defining and achieving mutual objectives, without losing sight of their obligation to remain accountable to their own population. Partner countries also need space for defining their own development priorities and for testing out different options to reach them.

Furthermore, it is important in the context of the ownership debate to recognise that ownership is not a fixed state but an ongoing process. Supporting the development of partner-country ownership by promoting the building of capacities that were described above as being important for effective ownership is therefore a key task of donors.

Partners are now being accorded a greater lead role in development cooperation through programme-based approaches involving budget support, basket funding and projects within the scope of SWAPs, because their national and sectoral policies and priorities exert a highly binding force on donor programmes. In the context of this form of cooperation, political and sector dialogue is an important mechanism for the partner country and donors to discuss the enabling environment, reform objectives and modes of delivery. The more a partner government in its entirety influences these processes of dialogue and agreement, the more binding and the higher the quality of the jointly agreed objectives will be. The higher will then also be the likelihood of sustainable results.

In advisory and training (TC) measures too, partners are increasingly assuming lead roles by deciding between various options either themselves or in partnership with donors and the providers of these inputs. Innovative forms of cooperation such as joint management and the stronger utilisation of local and regional (South-South) expertise should be tested more boldly in all measures in order to boost implementation of the partnership principle. To achieve this, donors and implementing organisations in-country must have sufficient decision-making authority to be able to enter into these innovative forms of cooperation on a context-specific basis.

Alignment

Alignment means first of all that donors bring their inputs into line with the development priorities of the partner country, for instance prioritised sectors in the context of poverty reduction strategies. Secondly, alignment also means adapting donor procedures and systems to partner procedures and systems so that partners are not faced with any

additional bureaucratic burdens. This is especially relevant in the case of public procurement and financial management systems. It should, however, also include monitoring and evaluation systems, or systems of accountability such as parliamentary oversight or monitoring functions. It is important that the partner procedures and systems form part of the country administrative structures, and are utilised by all the relevant country agencies themselves. This ownership will create the preconditions for continuous country-driven improvement of the procedures and systems.

In the section on alignment the Paris Declaration makes explicit reference to capacity development: The partner country must possess capacities to manage the entire development process. The process of building and developing these capacities should be supported through specific CD strategies on which donors should base their support and with which they should align their inputs in accordance with demand.

► Which capacities underpin effective alignment?

In order for donors to be able to align their programmes and procedures with those of the partner country, partner countries must have policies, strategies and programmes for development with clearly formulated priorities and objectives. These policies and strategies should include core CD objectives, from which clear CD measures can be derived for sectors and administrative levels/regions. The formulation and democratic negotiation of these policies/strategies and programmes require a precise capacity assessment, as well as the policy capacities described above in the section on ownership.

Alignment also requires of partner countries that they possess procedures and systems that meet minimum international standards. Minimising the fiduciary risk is an important aspect above all in budget support, although these minimum standards are also a precondition for institutional alignment when other instruments are used. The development of reliable procedures and systems through capacity development is one important area where partner countries can show visible commitment and donors can provide support.

► Requirements on donors:

Donors are called upon to support partners in developing policies and implementation structures, as well as procedures and systems, that meet minimum international standards. These procedures and systems should be utilised by donors as systematically as possible, while responsibly considering risk factors, because this utilisation in conjunction with support measures will further improve the capacities of partner systems. Low quality standards must be managed through transitional solutions such as the sequential use of various modes of

funding in conjunction with CD support, moving toward the ultimate objective of full use of partner structures. Where existing partner-country systems and procedures do not yet meet international quality, monitoring and economic efficiency criteria, CD support involving integrated advisory services, training and in-process facilitation measures should be the approach of choice. The support of CD processes in the fields of procurement, public financial management and M+E through advisory services, joint implementation, coaching, training, South-South exchange of experience etc. in various sectors and at various levels of the partner country is an effective and sustainable way to develop partner system capacities. Here, donors can now avail themselves of a number of existing international agreements and tools (e.g. recommendations of the Joint Venture on Procurement, or analytical tools developed within the scope of Public Expenditure and Financial Accountability [PEFA]).

Harmonisation

To generate greater leverage, synergies and complementarity, donors should mutually harmonise their programmes and support more effectively, and implement these through larger programme-based approaches. Donor procedures should be simplified and standardised, and donors should increase their joint utilisation of processes and products, e.g. through joint analytical works and joint missions. One important area for further increasing efficiency and effectiveness by reducing transaction costs is a stronger division of labour among donors in which donors should make greater use of delegated cooperation and lead donor arrangements. This division of labour at the level of the partner country should take place on the basis of donors' comparative strengths, as judged and evaluated by the partner government.

► Which capacities underpin effective harmonisation?

In order for partners to assume self-reliant steering of programme-based approaches, they require sufficient capacities as well as a clear political vision as to what support they require from donors. As well as steering and management capacities for internal processes, this also requires partner capacities for coordinating, standardising and implementing donor inputs. Partners must provide corresponding standardised programmatic and budgetary frameworks, harmonise procedures and organise donor coordination. This requires not only technical expertise in policy and budget cycles and in sector policies, but also clear sectoral strategies as well as managerial and negotiatory capacities. In order to ensure that important cross-cutting issues such as gender, human rights and environment are not neglected in

coordinated programmes, technical expertise must also be in place for these themes and their operationalisation.

The process of introducing and improving the in-country division of labour among donors also places the partner in a lead role, which requires corresponding management and steering capacities.

► Requirements on donors:

When implementing the harmonisation principle donors should generally improve coordination of their measures with partner countries, and where possible tie these into programme-based approaches to support partner priorities. Joint harmonisation rounds allow regular transparent exchange and decision-making on the creation of enabling frameworks, measures, approaches, procedures, plans and interests. These should be utilised intensively by partners and donors as fora for joint learning and coordination. Harmonisation processes must not stand in the way of partner demand for different options, e.g. in the delivery or content of advisory services.

All processes of improved coordination and harmonisation require a will and flexibility on the part of donors. Since harmonisation processes mainly take place in the partner countries, in-country donor and implementation structures must have sufficient decision-making authority for this purpose. Internal incentive structures within donor and implementation organisations must be adjusted such that they reward harmonisation and coordination efforts. This also requires changed personnel profiles and staff competences; instead of focusing on achieving (rapid) results in individual projects and programmes, for harmonisation processes it becomes more important to focus on networking, dialogue and consensus-building skills at the sectoral and macro levels. These capacities need to be developed within donor structures.

To harmonise their capacity development support donors must communicate more closely on the appropriate modes of delivery, agree on certain quality standards and better combine their inputs. Joint initiatives, e.g. training measures such as the Train4Dev initiative and joint CD assessments should be stepped up.

Managing for development results (MfDR)
--

This principle aims to help ensure that development cooperation contributes toward the achievement of development results defined by the partner. It also aims to improve the use of sound data as a basis for decision-making.

► Which capacities underpin management for results?

Development goals and results must be defined in the partner's development strategies and programmes in as concrete and measurable a way as possible, and must be assigned qualitative and temporal indicators. These definitions should be included in both overarching national strategies, and in sectoral and regional strategies and programmes. As well as policy capacities, this also requires the capacity to identify achievable objectives on the basis of reliable data and information on the current status. Reviewing progress in the implementation of strategies and programmes further requires effective information and monitoring systems. In order to ensure that the relevant data and information are suitable for both the downstream process of monitoring and the upstream process of policy formulation, the quality of national statistics often needs to be raised. Support measures should be geared to the development of statistical capacities, transparent and results-based monitoring and evaluation (M+E) systems, and transparent reporting systems.

Civil society actors must be supported in improving their access to relevant information, and in using this information to articulate their demands to the government.

Key to the performance of results-based monitoring systems is the presence or creation of the institutional, political and social preconditions that will enable the learning loops and learning curves for development processes.

► Requirements on donors:

The key challenge for the donor side is to support the partner in developing or strengthening MfDR systems that allow for progress to be measured and to be used as a basis for policy and management decisions; in particular, MfDR systems should be developed in a way that they allow the externally supported development process to be organised as a learning process. The learning loops of this process should involve relevant stakeholders and in so doing will also strengthen their ownership of the development process.

When supporting partner countries in raising the quality of their statistics and M+E systems, donors should participate in international initiatives and make use of internationally developed tools respectively (e.g. for statistics development the Partnership in Statistics for Development in the 21st Century [PARIS21], for M+E the JV MfDR Tools). When delivering advisory services to support the development of partner-country M+E systems as a basis for results-based policy decision-making, it is crucial to use existing data material, and to apply realistic quality standards when collecting new data material.

To support partner-country CD for implementation of the MfDR principle, donors should as far as possible harmonise their internal M+E requirements for their programme inputs and

align these with the national M+E systems, in order to avoid creating parallel systems and burdening partners with additional reporting requirements. As with other harmonisation and alignment requirements, this will require above all greater flexibility within donor organisations and ministries, in order to adjust existing stipulations while maintaining certain minimum standards (e.g. reporting in official international languages, different country-specific reporting requirements, monitoring intervals pursuant to partner stipulations etc.).

Managing for development results is also an imperative for donors and the design of their measures. Often it will require adjustments within donor structures, and not least a rethinking of the logic of donor practice, which can in turn be promoted through training and appropriate internal incentive systems.

Mutual accountability

This principle has come to be defined more precisely in recent years, such that a stronger distinction is now drawn between mutual accountability and the fulfilment of both aid obligations and partnership commitments between donors and partner countries on the one hand, and government accountability and transparency vis-à-vis the population on the other hand. The key significance of this principle for implementation of the aid effectiveness agenda is being strongly emphasised in the current debate.

► Which capacities underpin mutual accountability?

Implementation of the mutual accountability principle is based on the one hand on the emergence of a culture of transparency, responsibility for development results and the benefits of mutual accountability. On the other hand it is based on a reliable database. As explained above in the section on the managing for development results principle, this requires capacities in the fields of statistics and M+E systems. To facilitate transparency and accountability, data and information on all inputs to the development process should be available, including money flows from non-traditional donors, remittances from the diaspora, monies from vertical funds, foreign direct investment etc.

To ensure domestic and democratic accountability, partner countries must involve their parliaments in their respective constitutionally defined role, and must be able to manage processes of participatory dialogue with civil society and private sector actors. This also means that civil society groups, media and political supervisory bodies (parliaments, audit offices) must be able to demand accountability from their governments. The demand generated by these stakeholders for certain public services and the keeping of political promises leads to the important step of enhanced capacities in the public sector being

translated into improved public services. CD support to promote other stakeholders so that they too can perform their role in the development and political process is therefore an important point of entry for external partners.

For mutual accountability between partner countries and donors, capacities also have to be in place on both sides for the delivery of transparent information on pledged and planned inputs, and on the use of aid funds. Understanding mutual accountability as a joint learning process requires a willingness on the part of all actors to admit and learn from their own mistakes. This alone often involves a break with cultural traditions, which means that acceptance needs to be created and capacities need to be built through awareness-raising measures and other appropriate procedures.

► Requirements on donors:

In many partner countries, the principle of mutual accountability formulated in the Paris declaration with its far-reaching implications (with respect to both domestic relations within the partner country and the relationship between partner country and donors) requires profound change in the value system, for instance with respect to confidentiality. The support of this kind of capacity development by donors therefore affects not only the technical dimension of accountability systems, but in the first instance the process of communicating the benefits of accountability. It will also include support for didactically and methodologically broad-based initiatives for the practical appropriation of a culture of mutual accountability.

Bilateral donors are formally accountable in their own countries (vis-à-vis parliaments, public monitoring bodies, the public etc.), even though their sphere of influence is (primarily) in partner countries, where they are not formally accountable. This inherent dilemma in development policy cannot be eradicated, but donors should work toward improving the congruence of their internal and external accountability criteria, for instance by convincing internal accountability bodies of the need for partnership commitments and implementation of the Paris Agenda in order to achieve the MDGs. Once this is secured politically in their own countries, donors can then enter into more far-reaching agreements with partner countries for which they can be held accountable. There is a particular need for donors to act more accountably in the context of long-term pledges, to improve the predictability of donor contributions and the transparency of all cooperation inputs, and to make extensive use of partner systems when implementing aid on the basis of a transparent and systematic risk assessment.

4. Concluding remarks

Implementing the Paris Declaration and thus increasing aid effectiveness pose special challenges for partner countries and the donor community that require the development of specific capacities. Capacity development is thus gaining importance as a common thread running throughout the aid effectiveness agenda, and a redoubling of joint efforts is needed in order to achieve qualitative and quantitative progress in both CD and CD support. Aid effectiveness and the role of CD will also be a focus of debate at the 3rd High Level Forum in Accra.

The "Bonn Workshop Consensus", adopted unanimously by participants at the OECD-DAC "Capacity Development: Accra and Beyond" workshop held in Bonn (Germany) in mid-May 2008, identifies priority action areas for CD that the international community will need to tackle over the next few years in order to make CD more effective. Efforts of both partner countries and donors in the field of capacity development should be directed more explicitly towards attaining a higher level of development effectiveness, thereby using the full potential of CD as a driver of change in reaching the MDGs. German Development Policy will be actively involved in these processes.