THE DESIGN AND USE OF CAPACITY DEVELOPMENT INDICATORS

by

Peter Morgan
CIDA consultant

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ABBREVIATIONS AND ACRONYMS

CD	Capacity Development
CIDA	Canadian International Development Agency
EA	Executing agency
NCS	National Conservation Strategy
NGO	Non governmental organization
RBM	Results-based management
SDPI	Sustainable Development Policy Institute
TA	Technical assistance
UNDP	United Nations Development Program

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EXECUTIVE SUMMARY

INTRODUCTION

An earlier paper also sponsored by the Policy Branch of CIDA looked at two trends that currently influence the design and implementation of development cooperation projects: results-based management and capacity development. That paper, however, devoted little time or space to the issue of capacity development indicators. Focusing on that gap is the purpose of this paper.

In this paper, a narrower definition of capacity development has been used for ease of discussion. Capacity development is taken to mean the growth of formal organizational relationships and abilities, i.e. those changes in organizational behavior, values, skills and relationships that lead to the improved abilities of groups and organizations to carry out functions and achieve desired outcomes over time. Capacity development can thus refer to either process or outcomes - i.e. those efforts to improve organizational performance and/or the results of those efforts in terms of capacities developed. The paper itself is not a comprehensive analysis of the issue of capacity indicators. It looks at the issue more from the viewpoint of donors and funding agencies. The perspective is more organizational than technical or financial. It tries to provide a broad generic framework for thinking about some key aspects of capacity development and how to judge and assess them through the use of indicators. But it needs to be supplemented by analyses that look at indicators from the point of view of country participants. We need to know more about the applicability of different kinds of indicators to different kinds of functions for different types of organizations at varying stages of their evolution. More case studies are needed which study the impacts of indicators, both good and bad. And we need more operational guidelines or principles for indicator design.

CAPACITY DEVELOPMENT -SOME ASSUMPTIONS

The paper sets out some governing assumptions about capacity development as follows:

- The scope of capacity development goes beyond the traditional focus on the internal functioning of individual formal organizations or the 'micro' aspect of capacity development. More and more, participants have to look at the 'macro' aspect or the behavior and structure of larger work communities. .

- Capacity development is about complex learning, adaptation and attitudinal change at the individual, group, organizational and even societal levels. People at these levels have to assume new responsibilities and slowly devise new collective solutions to common problems.

- Participants need to think more in systems terms and see their contribution and those of other actors in much broader, interconnected kinds of ways. This, in turn , has implications for doing capacity assessments and designing indicators.

- Capacity development is also about power, control, risk and uncertainty. It also depends upon the creation and the harnessing of social energy and the commitment and ownership of field participants and stakeholders.

- One of the challenges is to arrive at the right relationships amongst process, product and performance when designing capacity development initiatives. Products without sufficient attention to process can lead to outcomes and impacts with little sustainability. Both product and process must be directly focused on improving performance to be of interest to practitioners.

- The report sets out a generic list of capabilities that projects could be designed to achieve. These have to do with learning and adapting, forming productive relationships both inside and outside the organization, being able to recruit and develop the required staff, setting and maintaining a clear direction.

IMPLICATIONS FOR THE DESIGN OF CAPACITY DEVELOPMENT INDICATORS

What then are the implications for the design of capacity development indicators? These are the following:

- Project participants must have a shared understanding of the purpose of such indicators. They should be designed and managed primarily to manage performance at the field level and as a part of the process of capacity development itself. Their other two uses - part of the donor reporting and accountability system and shaping the contractual relationships with executing agencies - should supplement but not supplant the first two to avoid draining ownership and commitment away from field level participants.

- Capacity indicators should not be based on the conventional 'inputs-outputs-outcomes-impact' typology that is widely used in the development community. They should focus more on process and behavioral change. And they need to be designed by field participants to avoid making them into a form of conditionality. This, in turn, has implications for the style of project management, communications and the conduct of monitoring and evaluation.

- Their selection must be tied to a coherent process of strategy formulation to have much diagnostic value. Too many complex sets of indicators appear to be based on the flimsiest of change strategies. This strategy question is crucial to answering the 'so what' question that applies to most indicators. Finally,

project participants must be clear about the use of indicators for informational purposes and their impact on participant motivation.

FACILITATING AND PROCESS FACTORS

What issues must be thought through before we can begin to design capacity indicators?

- There needs to be a convincing answer to the question ..'capacity development to do what? The focus should be on the critical functions, which if performed effectively, would allow the groups or organization(s) to survive and hopefully, to overcome their main challenges and constraints.

- Capacity development strategies contain assumptions, both implicit and explicit, about the nature and source of the problem(s) to be solved, the means to be employed, the timeliness of the intervention, the support behind it, the degree of the innovation involved and the nature of the desired organizational outcomes to be achieved. These assumptions influence the selection and the design of the capacity indicators.

- Process techniques such as participatory institutional assessments, workshops, conflict and dispute resolution and team building are part of capacity development and a key part of any approach to strategy implementation. This emphasis on process should shape the design of technical assistance interventions that should go beyond the conventional activities of training, advisory services and equipment supply.

- The context or the environmental factors of projects also affect the pace and direction of capacity development. These include factors to do with the state of the economy, the policy and legal framework, political trends, the informal 'rules of the game' and the degree of complexity and conflict in the society. Projects can design indicators that can help to track the impact of these outside factors.

THE DESIGN OF CAPACITY DEVELOPMENT INDICATORS

The report puts forward a simple framework for thinking about capacity indicators - the *product* meaning capacities actually developed, *performance* in terms of substantive program outcomes and *permanence* in terms of the sustainability of the capacities produced.

- The product can be looked at in three ways. The state of capacity development at the start of the project, the projected capacities that participants believe can

be achieved by the end of the project and finally, the actual capacities developed at any one point in time.

- Efforts to develop capacity need to be focused not on abstract generalities but on improvements to the critical functions that determine the productivity or health of the organization or system. Participants must look to achieve both long term improvements but also short term tasks that may change rapidly depending on the course of events.

- The issue of permanence or sustainability has to do with deciding how best the performance of critical functions can be made sustainable. Or how best to maintain the flow of benefits and services with or without the programs or organizations that stimulated those benefits in the first place. Part of the solution lies on the 'supply' side in terms of improving the ability of organizations to perform better. But a good part of the solution comes from the 'demand' side, i.e. equipping citizens with the information, political power and the ability to hold organizations accountable for their performance.

SOME OPERATIONAL GUIDELINES

The use of capacity development indicators has both advantages and disadvantages. They can, for example, push participants to think through cause and effect relationships and their own perspectives on what constitutes capacity and performance. They also can play a key role in monitoring, evaluation and organizational learning. But if designed and managed inappropriately, they can drain energy and commitment out of a project and can introduce performance distortions.

The remainder of the paper discusses briefly some rough operational guidelines for capacity indicators. Using common sense and some simplification, improving their diagnostic value, focusing their use for project management, building on country commitment, experimenting to find the right indicators and retaining flexibility to adjust as circumstances require are some of the main recommendations.

1.   INTRODUCTION

1.   An earlier paper written in February 1996[1] looked at two trends that currently influence the design and implementation of development cooperation projects:[2] the results-based or performance management of projects and programs and second, the emphasis on capacity development (CD) as a focus of development cooperation. That paper looked at the interrelationship between these two trends and their utility for improving the effectiveness of donor interventions. Some attention was given to the sub-topic of indicators of capacity development but time and space did not allow for a fuller analysis.

2.   This second paper, also sponsored by the Policy Branch of the Canadian International Development Agency (CIDA), tries to fill that gap. It focuses in particular on the following series of questions:

- What is it about capacity development that can be assessed or measured?

- What are some examples of CD indicators?

- What are the benefits and risks of CD indicators?

- What are some simple operational guidelines for designing and using capacity indicators?

3.   An immediate impression confronts those who try to address this topic of capacity indicators. Capacity development as a theme pervades the work of most donors. Virtually all projects now claim it as a major component or outcome of the work.[3] Yet it is difficult to find useful examples of indicators that have been used effectively to measure or assess capacity development.[4] Measures exist at the input and output end of the spectrum (e.g. number of staff trained in management accounting during the last fiscal year) and many indicators can be found which address service delivery and performance outcomes (e.g. percentage increase in the number of smallholders visited by extension staff since the beginning of project operations). There remains, however, a 'black box' in the middle of the indicator spectrum to do with capacity development which remains vague and unclear. Focusing on that gap is the purpose of this paper.

4.   The reasons for this gap can be explained in a number of ways. 'Capacity development' as a term remains amorphous and vague. Its lack of operational content has

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[1] Peter Morgan and Ann Qualman, *Institutional and Capacity Development, Results-Based Management and Organizational Performance,* paper prepared for CIDA, February 1996.
[2] I have not addressed the program versus projects debate in this paper and use the terms interchangeably.
[3] In a recent CIDA workshop, it was stated that 79.5% of all CIDA spending on infrastructure projects was dedicated to activities to do with capacity development.
[4] One notable exception is a paper by IDEM Consult in the Netherlands entitled *Indicators for Capacity Development in the Environment,* April 1995.

hindered the development of useful indicators compared to activities such as health or transportation which come with a extensive body of theory and practice behind them. Second, most external stakeholders of development projects such as donors, politicians or the media are primarily interested in policy questions and substantive outcomes or what might be called the performance aspects of projects. Few focus intently on the less glamorous tasks to do with achieving these ends such as developing staff skills or decentralizing decision making to regional offices. Simply put, most external stakeholders are not interested in capacity development. And finally, few project field staff have strong incentives or opportunities to develop capacity. Most senior public officials in developing countries have to give more attention to coping with constraints and threats in their external environment than they do to strengthening their internal abilities. Close and transparent monitoring of organizational performance, especially by outsiders, can also be intrusive and irritating. And the relevance of much of the analyses of capacity development in the donor community is not clear to most practitioners. In retrospect, therefore, it is not surprising that little serious work has gone into the design of capacity indicators.

5.   Another cause of the indicator problem is the perennial difficulty of agreeing on a definition of capacity development that can then be used to guide efforts at assessment and measurement, i.e. what exactly is it that we are assessing and measuring? How is capacity development different from social or human resource development? How can we talk a uniform approach to measuring activities as diverse national policy formulation and community sanitation committees? At one end of the definitional spectrum, for example, the term is used to apply to improvements in administrative procedures or in the technical or organizational skills of individuals. At the other end of the spectrum, some definitions now include elements to do with changes in the pattern of societal politics, the growth of social capital or the development of healthy communities and many other big ideas. At this point, capacity development becomes almost synonymous with development itself, making it difficult to assess results in a systematic way.

6.   In this paper, a narrower definition of capacity development has been used for ease of discussion. Capacity development is taken to mean the growth of formal organizational relationships and abilities, i.e., those changes in organizational behavior, skills and relationships that lead to the improved abilities of groups and organizations to carry out functions and achieve desired outcomes over time. Capacity development can thus refer to either process or outcomes - i.e. the efforts to improve organizational performance and/or the results of those efforts in terms of capacities developed. And it does include behaviors both within individual organizations and those that occur amongst groups or systems of organizations that work - supposedly together - to accomplish complex tasks and objectives.

7.   This paper has three biases which should be stated at the beginning. The first is that the ability of development cooperation programs and projects to assist in inducing the growth of capacity is a critical issue. The pressure on all participants to achieve this objective will likely intensify in the years ahead. Following from this assumption, all project participants and stakeholders need ways of answering the obvious questions...

What kind of new capacities do we need? ...Are we developing them? ..Are we going about it in the right way? ...How do we know? .. What have we learned? ...What works?.. What lasts? ... In short, participants need some systematic way of monitoring and evaluating progress towards capacity development.[5] Using indicators can help to do this.

8.   But it is also true - and this is the second bias - that the widespread use of performance indicators to 'measure' capacity development is not the panacea that it is currently made out to be, particularly in the donor community. Used with common sense and as part of a shared effort at performance improvement over the long term, indicators can make an important contribution to project effectiveness and capacity development. But they can be quickly disconnected from the underlying dynamics of the project and degenerate into a form of conditionality and control designed mainly to serve the reporting and accountability needs of donors and funding agencies. When this happens, the more funders use indicators to control and manage 'their' capacity development projects for measurable results, the more likely they are to undermine their own efforts. Western performance management techniques including results-based management (RBM) and indicators need to be re-oriented to make them relevant for the special context and needs of development cooperation. The effectiveness of capacity measurement techniques is still governed by one of the first principles of management.... 'it all depends'.

9.   Finally, the whole issue of 'indicators' themselves needs to be de-mystified.[6] Too much and too little has been made of this issue in the donor community. On the one hand, indicator factories in funding agencies now produce lists and lists of indicators for many different sectors. These are then tacked on to development projects and inserted into approval documents and contracts with little empirical evidence of their benefit or impact, little sense of their cost and little commitment to them amongst project participants. Yet at the same time, there needs to be more attention paid to the use and design of indicators as one part of a broader process of the strategic management of capacity development that can create the coherence and focus needed to make a difference.

10.   This paper is not a comprehensive analysis of the issue of capacity indicators. It looks at the issue more from the perspective of donors and funding agencies involved in project design and management. The point of view is more organizational than technical, social, economic or financial. It tries to provide a broad generic framework for thinking about some key aspects of capacity development and how to judge and assess them through the use of indicators. But it needs to be supplemented by analyses that look at indicators from the point of view of operating managers and country participants at various levels.[7] We need to think more about the applicability of different kinds of indicators to different kinds of organizations at different stages of evolution. More case studies are also needed analyzing the impacts, both good and bad, of using indicators to

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[5] By the term 'participants', I refer to people involved from both donors and developing countries.

[6] I am indebted to Suzanne Tashereau for the concept of de-mystification.

[7] More writing from the South on this topic would be helpful. One example is Ali Imran, *Indictors for Sustainable Development: A Southern Perspective,* A Report for the World Wide Fund for Nature, April, 1995

judge results. We need a better understanding of different aspects of capacity development, e.g. innovation or organizational change. And we need more operational guidelines for indicator design covering a wide variety of circumstances. The development community is still at the early stages of this topic.

2.   CAPACITY DEVELOPMENT - SOME ASSUMPTIONS

11.   It may be useful to set out some of the governing assumptions about the concept of capacity development that underlie this paper. These assumptions will later guide the discussion on indicators.

12.   The first assumption is that the scope of capacity development goes beyond the traditional donor focus on internal functioning of individual formal organizations, i.e. their structures, systems, strategies, staff, skills and so on - what might be termed the 'micro' aspect of capacity development. More and more, project designers and participants have to look at the 'macro' aspect , i.e. the behavior and functioning of 'work communities'[8], particularly clusters of groups, organizations or individuals which deal with complex multifaceted functions such as environmental protection or rural health improvement.[9] Even the focus on improving the performance and capacity of individual organizations now involves much more attention to their place in wider systems and relationships. Such communities can also include members of the general public, specific beneficiaries, key stakeholders such as politicians, the media, other donors and indeed, any groups or individuals who are in a position to influence the direction and growth of performance. Capacity development can thus span a wide range of activities ranging from staff training inside a single department to efforts at large scale organizational change that span whole countries. We know a good deal more about capacity development at the 'micro' level than we do at the 'macro'.

13.   A second major assumption is that capacity development is also about complex learning, adaptation and attitudinal change at the individual, group and organizational levels. To make progress, multiple actors need to try to come to some measure of agreement on shared values, frameworks for action and interpretation. They need to

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[8] By the term 'communities' is meant any collection of people that are tightly or even peripherally linked together through responsibilities, meanings, relationships and styles. For example, all those officials and organizations in Pakistan that try to improve the performance and impact of the nursing profession. Communities can be within organizations, across organizations or part of actual living communities.

[9] There are many frameworks that are used to carry out assessments of individual organizations, some of which are used in CIDA. A number exist that look at institutional issues at the sectoral level (e.g. Rogerio Pinto and Angelous Mrope, *Sector Institutional Assessments: Lessons of Experience from Zambia's Education Sector*, AFTCB Regional Program on Civil Service Reform, The World Bank, June 1995. With respect to capacity development, The UNDP has produced some of the few systematic frameworks. See *Building Sustainable Capacity: Challenges for the Public Sector,* A study for the Bureau for Policy and Programme Support, 1996 and *A Synopsis of General Guidelines for Capacity Assessment and Development*, September 1997.

assume new responsibilities and adopt new ways of looking at things. Inevitably, different individuals, groups and organizations will bring varied expectations, alternatives, incentives and vested interests to such an activity. They need to slowly devise collective solutions to common problems. They need to have some way to resolve differences. Capacity development thus focuses on inducing different patterns of behavior and instilling new attitudes and values. Above all, it is about social and group learning that involves both technical and personal change. It is for this reason that the UNDP defines capacity development as "*the process* by which individuals, groups, organizations, institutions and societies develop abilities to perform functions, solve problems and set and achieve objectives."[10] Simply put, capacity development has to address the 'softer' issues - motivation, fear, meaning, identity, values, commitment, legitimacy, initiative, hope - that are difficult to manage and measure. It should be remembered at this point that donor attention with respect to capacity development has traditionally been focused on the 'micro and the harder' issues (e.g. systems improvements, equipment supply, training, organizational structuring) rather than the 'macro and the softer' ones such as changes to patterns of societal values and learning.

14.   This broader approach to organizational improvement has important implications for the way we think about capacity development issues. Participants need to think more in systems terms and see their contribution and those of other actors in much broader, interconnected kinds of ways.[11] More specifically, systems thinking for capacity development has the following implications:

- Capacity constraints are likely to stem not from a single cause (i.e. lack of skilled staff) but from a pattern or deeper structure of interlocking forces that combine to prevent system improvement. Attention to only one activity or part of the system (e.g. organizational restructuring) may have little impact at the broader system level.

- Cause and effect have a complex relationship separated by both place, function and time. Dysfunctional behavior inside an organization may have an explanation far outside the organization. Results 'chains' are usually difficult to plot. Indicators do not explain why complex systems works the way they do.

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[10] UNDP, *Capacity Development*, 1997, p.3.

[11] Systems thinking as an approach to organizational analysis is well developed in the management literature in North America but has not yet made its way into the international development community except in the most general ways. But it has dramatic implications for thinking about capacity systems. For example, what are the broader system dynamics in the health sector in Nepal that produce over investment in expensive curative facilities in the urban areas and under investment in rural health posts. What are the systemic incentives that appear to act against adequate road maintenance in many developing countries? What are the most common systemic constraints that affect development project in which conditions? For an introduction into systems thinking for management, see Peter Senge, *The Fifth Discipline*, 1992. Also Colleen Lannon-Kim. *A Beginner's Guide to Systems Thinking,* Pegasus Communications, 1994 and Daniel Kim, *Systems Thinking Tools: A User's Reference Guide*, Pegasus Communications, 1995.

And they do not lend themselves to simple conclusions about causality and accountability.

- Once the scope of activity goes beyond a single organization, such systems (in the form of communities or groups of organizations) must figure out and implement complex change in the absence of a controlling hierarchical authority. Mediation, communication, negotiation, levels of trust and facilitation become critical.

- System dynamics - entropy, virtuous and vicious circles, balancing or stabilizing behavior - act continuously on capacity systems. Participants need to understand their effects on capacity development (or erosion).

- Understanding and shaping organizational relationships, for example through partnerships, networks or participation, become critical. The influence of contextual factors becomes much greater on the progress of events.

15.   All of this has implications for capacity assessment and diagnosis. System performance, for example, cannot be analyzed by disaggregating it into discrete element such as financing or structuring or personnel management. Conventional problem solving frequently turns out to be an unconnected way to get at the broader systemic constraints. Short-term fixes usually fail. And indicators have to be selected and interpreted in a more holistic way.

16.   Most capacity development initiatives should therefore be seen as complex adaptive systems that require different ways of managing and measuring. They must function in uncertain and rapidly changing environments. Change is frequently non-linear, random and unplanned. Given the wide variety of participants especially in cases of large scale 'macro' change, capacity development situations can appear chaotic and unmanageable. A range of change strategies on both the 'supply' and the 'demand' side are possible and it becomes difficult to decide on the most effective point of intervention and leverage. Finally, approaches to capacity development need to somehow balance complexity and simplicity, the short and the long term. Participants need to understand the nature of the wider capacity system of which they are a part. But at the same time, the strategy for change needs to be simple and easily grasped to enable participants to make a contribution where they are and see the results of their efforts. Capacity analysis is thus about turning messes into issues that people can do something constructive about in their daily work lives.

17.   Capacity development is also about power, competition for control and resources, risk and uncertainty. Policy goals can be ambiguous or unclear in the midst of political conflict. Some capacity issues are hidden and undiscussable. Coalitions supporting change cannot muster the strength to enforce a clear direction. Those with a vested interest in the status quo block new initiatives. The answer to the question ..capacity development to do what? ...is never quite decided. No broad consensus exists on any program to improve

performance. Different political, economic or ethnic factions struggle to capture or maintain their access to organizational resources. In many cases, organizations are used as tools in a political battle for legitimacy or control or personal gain. Transparency is not welcomed. The pattern of incentives is not clear especially to outsiders. Capacity can still be developed slowly in the face of such constraints but it takes time and patience. Efforts to develop capacity need to carefully gauge commitment and the probable (as opposed to the desirable) outcomes.

18.   In those projects that do succeed, one of the keys -especially at the macro level - appears to be the ability of participants to tap into, and generate, what has been called social energy.[12] Certain interventions put forward new ideas and values. They create a new flow of legitimacy, information, and expectations. They persuade people that a better future is possible if they cooperate and collaborate for the greater good rather than maximizing their own personal or organizational self-interest. They lead slowly to a collective sense of purpose and progress. They result in a release of both commitment and energy that drives changes to personal and organizational behavior.[13]

19.   This emphasis on social energy, process and learning leads to the first of the many difficulties that arise in the design and implementation of capacity development projects, i.e. arriving at the right relationships amongst 'process'(i.e. the efforts to induce improved capacity), 'product' (i.e. the actual new capacities or abilities produced) and 'performance' (i.e. the substantive development outcomes and impact that result). For most of the past four decades, the emphasis of donor-supported projects, and particularly the design of technical assistance, has been mainly on performance. As mentioned earlier, the normal cast of characters in both the donor and the partner country who assess the results of project and programs including senior officials, politicians, auditors, technicians and professionals, citizens, evaluators and the media usually have little interest in process questions or issues to do with management improvement per se. Most are concerned with the achievement, justification or distribution of program benefits. Indeed, it is part of the current conventional wisdom of RBM to insist that participants focus on outcomes rather than process.

20.   The advocates of capacity development are now arguing the case at the other end of the spectrum - i.e. that efforts at capacity development require a separate attention to 'process' issues such as organizational development or community mobilization or team building or empowerment. From this perspective, the 'how' is more important than the 'what' and it needs to be the focus of systematic attention during project design and implementation. In a sense, the 'process' becomes the 'product'.

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[12] There are a great number of 'lessons learned' on this subject of social energy. See for example, Norman Uphoff, *Learning from Gal Oya*, 1992 and Robert Putnam, *Making Democracy Work*, 1993 and Albert Hirshman, *Getting Ahead Collectively,*1982.

[13] For an example of a CIDA-funded project that tapped into social energy, see Box 3 below on The Fund project in Peru.

21.   Over the medium and long term, neither of these two approaches leads to sustainable outcomes. Performance without sufficient attention to process can lead to outcomes and impacts with little sustainability. Processes not directly helpful to practitioners in solving their key constraints and problems -i.e. in their daily operational life - become abstract and unproductive. What is now better appreciated is the need to shift from a somewhat fruitless 'product versus process' debate to a more integrated approach to learning and change. Capacity development does need separate attention to process but it must be use this attention to help participants achieve product results where they work. Once the advocates of capacity development are clearer on what they can offer, the challenge is to work with practitioners to determine the specific intervention to which such frameworks and tools can be applied. Thus for most projects, accomplishing tasks is the key to capacity development and capacity development is the key to task accomplishment.[14] And both these aspects need to be supported by research and conscious reflection that can assess results and lead to further changes.

22.   Finally, we need to acknowledge once again what should be obvious - that the one constant factor in successful examples of capacity development is the degree of energy, commitment and ownership associated with the project at the field level. But we need broader ways to think about commitment and ownership issues. Commitment in principle to policy and organizational changes has to be supplemented by commitment to resolving the more onerous constraints that come during implementation. Commitment and ownership also have a political aspect in the sense that there must be a sufficiently powerful coalition of forces behind capacity development to enable such a reform to succeed. Commitment and ownership thus goes beyond the personal preferences of the direct participants and relates to the general patterns of incentives, interests, anxieties, understandings and perception of risks in the wider environment.   Whatever techniques and tools are devised in the donor community to design indicators, they must have participant ownership and commitment at their core if they are to be of much use.[15]

23.   All this being said, what then constitutes 'capacity development'? What would it look like if we had it? What are we 'measuring' or assessing when we talk about capacity development? Obviously, its meaning needs to be customized to fit to a wide variety of situations ranging from improving expenditure management in the federal government of a huge mega-state such as India to restructuring a small NGO to help it better assist smallholders irrigation practices in a small African country. The type and interests of the participants, the context, the type of organizational challenges, the resources available, the

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[14] There is nothing new in any of this. For many successful private sector firms, the emphasis is on building the company rather than simply selling a product. In their book *Built to Last: Successful Habits of Visionary Companies,* James Collins and Jerry Porras state that managers in such companies "had to shift from seeing the company as a vehicle for the products to seeing the products as a vehicle for the company" (p.28).

[15] There are now over 35 different terms describing various approaches to participatory learning and action including Participatory Rural Appraisal (PRA), Development Education Leadership Teams (DELTA). See OECD, *Capacity Development in the Environment: Principles in Practice*, p. 11.

incentives and constraints all vary widely. Few boiler plate principles for capacity development will apply in all cases.

24.   The following characteristics may be helpful in identifying capacity development

- Capacity development can include improvements in or additions to physical and human capital such as knowledge, infrastructure and staff skills (i.e. what resources the group or organization or network of organizations have). But the core component is what might be called organizational capital (i.e. what the organization can do).

- CD refers in particular to changes in human behavior - i.e. the growth of new skills, attitudes, values and relationships that are created or acquired over time. Capacity development is thus about leveraging strengths and creating new opportunities. It is less about fixing problems or instituting new procedures.

- Third, these new leanings and abilities become embedded in a collective unit. They are more than the property of individuals. They indicate some sort of systemic or structural improvement. A cultural and organizational change takes place that supports a new level of performance. Collective behavior forms new patterns that can take place both within and amongst organizations.

- Fourth, these new behaviors remain in some form even when particular individuals leave or certain organizations are disbanded. Capacity development must have some sense of permanence or sustainability.

25.   What then are some examples of organizational capacities? Obviously, different situations will call for different capabilities. But the list below sets out some generic capabilities that will apply in general terms across a wide range of circumstances.

- The organization or system can understand the implications of its experiences and can change its collective behavior in line with this understanding. It can learn and adapt. It has a self-renewing capability.

- It can form productive relationships with outside groups and organizations as part of a broader effort to achieve its objectives. It can manage these relationships both for its own gain and for those of its partners. It can work productively as part of a web of relationships. It can balance its need for autonomy with that of interdependence.

- The organization has an effective program for the recruitment, development and retention of staff that can adequately perform its critical functions. It must have a basic set of competencies that can enable it to cope with its workload and environment.

- It must have some ability to legitimize its existence. It must be able to persuade key external stakeholders e.g. politicians, citizens, funders, of the value of continuing to support its continued functioning. It has an identity that is accepted internally and externally. The loyalty of its clients, customers and stakeholders give it protection and resources.

- It has an organizational structure, technology and set of procedures that enable staff to carry out the critical functions. In many cases, this will mean the decentralization of authority, knowledge and initiative to the middle and lower levels. It has a distributed leadership with initiatives coming from all levels of the organization or system.

- It has a culture, a set of values and an organizational motivation that values and rewards performance.

- It has the ability, the resources and the autonomy to focus on a manageable set of objectives over a reasonable period of time. Its goals are reasonably clear, accepted, and achievable. It can more or less maintain a balance between its work load and its capacities, actual and potential.

- The work community has a population of groups and organizations that is sufficient to carry out the tasks and services needed to implement the critical functions such as a analysis, production, mediation, communication, networking, fund raising and so on. The system can alter its structure and functioning by the inclusion of new actors, new partnerships, decentralization, delegation, creation of new organizations, downsizing, privatization, participation, devolution and changing responsibilities for government.

26.   Participants that are about to design capacity indicators need a sense of what capacities they need to develop and for what reason. Most groups and organizations can articulate such a vision of the future given sufficient time and productive discussion.

3.   IMPLICATIONS FOR THE DESIGN OF CD INDICATORS

27.   Given these assumptions about capacity development, a number of questions arise about assessing or measuring it. What are the actual purposes of capacity indicators? What exactly is it that we are assessing? Is it the outcomes and impact of capacity development or is it the process itself or both? What do results mean with respect to capacity development? Do the conventional approaches to the design of indicators still work for capacity development?

28.   Indicators, along with those covering other aspects of the project's results, are being used for four main purposes.

- They can be used as part of an approach to results-based or performance management to help set objectives and monitor progress at the field level.

- They can be an important part of the process of capacity development itself. In designing and using indicators, participants can learn to think about performance assessment, the use of management information, the design of information and performance tracking systems and their use for organizational learning.

- Indicators are becoming a key part of donor reporting and accountability systems that, in theory, enable them to track outcomes, value for money and the overall performance and impact of their investments. External monitors, evaluators and auditors use them when available.

- Finally, indicators are also being used by a number of bilateral donors to structure their contractual relationships with executing agents such as consulting firms. Contracts and their payment systems are structured for remuneration against outputs or outcomes achieved.

29.   We encounter here one of the main issues to do with the effectiveness of capacity development indicators. For such indicators to be useful in supporting overall project performance and effectiveness, they must be designed and managed *primarily although not exclusively* to meet the first two of the above four objectives. They must be relevant to the management for results at the field level and they must earn a sense of legitimacy and ownership amongst key field participants. If these conditions are met, efforts to meet the final two objectives - meeting donor reporting and accountability requirements and shaping donor contractual relationships with executing agencies - can and will be strengthened. *But the reverse is not the case.* Measurement systems that are designed and used mainly to assist donors can drain ownership and relevance away from efforts to meet the first two objectives. Clearly, the challenge facing both donors and the country partners is to set the appropriate interrelationships amongst these purposes. For donors under domestic pressure to demonstrate their effectiveness and accountability, the temptation is to 'capture' the measurement system for their own purposes and then negotiate local compliance. Dealing with capacity indicators under this scenario then becomes a transaction cost for country participants that must be paid to get access to funding.

30.   The second point is that the conventional focus on indicators for program performance is still necessary but not sufficient. We need indicators that can give us clues to the growth and development of capacities and abilities, that can help us chart changes and trends within individuals, groups and organizations as they try to improve their performance. In short, we need to come to grips with process indicators when dealing with capacity development and find ways to make them part of the conventional accountability frameworks that donors need for all projects. We also need indicators to help focus the attention of participants on the need to think more systematically and strategically about capacity development - what it would look like and how to get it. This

need for qualitative assessments leads to some of the obvious difficulties that come with capacity indictors and accounts, in part, for their relative scarcity to date. Many are linked to activities that are unmeasurable but still observable.

31.   We therefore need to recognize the inappropriateness of some of the conventional approaches to the design of indicators which, not surprisingly, are focused on performance rather than process. Many in the donor community now use the conventional 'inputs-outputs-outcomes-impact' typology for development indicators. This approach can be useful in judging the value of a project's costs and performance but it is not helpful in focusing attention on the critical process aspects of capacity development. Not surprisingly, these mechanical and linear notions so attractive to engineers, auditors and economists produce little insight into the human behavioral aspects to do with learning, attitudes and values or organizational change. The question then becomes the following: can a more tailored approach to capacity indicators be combined with one focused on overall project or program outcomes?

32.   Indicators for capacity development are likely to have other properties that make them harder to design and implement than those for other aspects of development.

- Many capacity indicators are put in place by external consultants and technical assistance (TA) personnel as opposed to operating field managers. Such indicators have a harder time gaining legitimacy.

- Many participants are not clear about how to develop the required capacity. The long term objectives are understandable but not short and medium term means and ends.

- In many cases, it is difficult to come up with valid objective standards, benchmarks or international comparisons with respect to capacity development given the qualitative nature of the work and the influence of differing contexts.

- Aggregation is more difficult. There are likely to be fewer single or key indicators that can encompass all facets of the desired capacity improvements.[16] This constraint can lead participants to propose more indicators which can, in turn, lead to undue complexity and cost.

- Attribution is difficult to deal with. In many cases, it is hard to judge the real causes of improving or declining capacity given the variety of factors that influence a complex situation. Given the systemic nature of capacity development, indicators are frequently interrelated and must be judged in an interconnected way. But many participants do not have an overall view of the project's progress.

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[16] The definition of a key indicator is one in which continued failure in this activity will prevent the organization from achieving its objectives even though results in all other key areas are acceptable.

- Capacity indicators are likely to be more intrusive and threatening given the need to assess attitudes, personal performance and outputs. Many field participants will find them intrusive, distracting or unnecessary.

- Judgments on effectiveness and efficiency are subjective. Effective with respect to what? Effective for whom? People can frequently disagree on both the objectives and the means to achieve them.

- Capacities can be difficult to develop and even harder to maintain. Organizational effectiveness, for example, can decline rapidly in the face of political pressures, changes in leadership or financial cutbacks.

33.   As stated earlier, it is now generally accepted that learning, adaptation and change are intrinsic to CD. And so is the notion that people support what they create. Hence the opportunity and ability of the participants to design their own indicators of capacity development seems critical to their acceptance and potential use. We encounter here one of the key issues to do with the design of indicators. Whatever their relationship to donor needs, CD indicators must reflect the interests and choices of field participants if they are to be effective. There must be a process in place that continuously encourages and re-establishes local ownership of, and commitment to, their use. This need for the ownership and legitimacy of indicators has wider implications. Many capacity programs are now public-private partnerships. Or they involve the participation of wider communities and are no longer organization-based. The use and relevance of capacity indicators thus become part of an approach to state-civil society relations that will entail continuous feedback to clients, households and communities. This, in turn, has further implications for the conduct of project management, leadership styles, communications, power and control and the conduct of monitoring and evaluation. Who decides what is to be monitored and who monitors whom?

34.   Another assumption of this paper is that the design and implementation of indicators for capacity development are an intrinsic part of a much larger process of learning and change. In short, they must linked to a strategy of organizational and institutional change relevant to field conditions that has, or over time can gain, the understanding and support of project participants. Too frequently, the design of indicators becomes disconnected from any coherent approach to organizational change and becomes an isolated focus of donor attention. It needs to be kept in mind that indicators *by themselves* provide few answers. The information they produce (e.g. 55 people trained for six months on budget preparation) must be screened through the mental models of the participants to acquire any diagnostic value (e.g., what difference do improved budgeting techniques make to a politicized budget process?). Too many complex sets of indicators appear to be based on the flimsiest of change strategies. This strategy question is crucial to answering the 'so what?' question that applies to most indicators.

35.   CD indicators, particularly those that are used to judge individual and organizational performance, must be designed with the tension between informational and motivational objectives in mind. Much of the discussion within the donor community focuses on the informational role of indicators - assessing progress and measuring outputs, outcomes and impact much like the famous analogy of tracking the dials in an airline cockpit. Such an approach can serve to motivate staff. The feeling of progress and achievement can be palpable. The information produced can also focus participants' attention on reality and reduce the level of the ideological debate. But it is also true that when indicators are set and measurement begins, a risk is incurred of worsening or distorting the very performance that the project is designed to improve. The project rewards A while hoping for B. Indicators miss the real determinants of capacity and performance and focus attention on the wrong things. The information produced is suspect. The measurements of capacity, dealing as it does with human performance and effectiveness, contain built-in incentives to tailor, withhold and falsify information that flows upward to decision makers who are in a position to reward or punish project participants. The more information they can produce, the more they have the potential to threaten certain participants. Capacity indicators thus have social and psychological dimensions as well as informational and technical.

36.   In summary, participants need to connect indicators to other aspects of program and project design. They must be part of a coherent approach to the strategic management of a capacity development program or project. They must reflect participants commitment and interest. They must take into account the prevailing pattern of incentives and expectations. They must be tied to specific improvements in operational performance. And they must support the actual (as opposed to the espoused) strategy that it being employed to induce organizational improvements. Efforts by participants to make indicators overly technical or to monopolize their use to serve donor needs tend to break these connections and diminish the contribution that capacity indicators can make to project effectiveness.

4.   FACILITATING AND PROCESS FACTORS TO DO WITH CAPACITY DEVELOPMENT INDICATORS[17]

37.   This section approaches the issue of capacity development indicators from the perspective of facilitating and process factors. What issues need to be considered before we can begin to design CD indicators? How are the project participants going to help induce the needed capacities that can then be assessed or measured? Some of the questions that arise here are the following:

- Capacity development to do what?

- What CD strategy is to be fostered?

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[17] Webster's defines 'process' as "a series of actions or operations conducting to an end" or " a natural phenomena marked by gradual changes leading towards a particular result".

- What processes need to be used?

- What outside factors need to be considered?

4.1. CAPACITY DEVELOPMENT TO DO WHAT?

38.   We cannot assess the effectiveness of interventions designed to support capacity development if we are unclear about their purpose .... capacity development to do what? But this question cannot be answered by referring to the broad objectives, goals or mandates of organizations. Most of these can only be stated in vague terms and are usually the subject of disagreements - particularly in the public sector - once participants try to specify the resources needed to implement them. For example, promoting environmental sustainability is a goal that most would support but it says little, if anything, about the capacities that are needed to carry out such a mandate. Much of this debate will turn on decisions about the appropriate role of the state versus civil society versus private interests, about service delivery strategies and other issues. The ends are agreed but the means are not.

39.   What does need to be thought through in terms of capacity development are what might be called *the critical functions* that participants need to perform. These are the key functions, which if performed effectively, would allow the groups or organization(s) to survive and hopefully, to overcome their main challenges and constraints and accomplish their goals. We can make some simple categorizations of these critical functions for the purposes of this paper. Some can be described as operating functions which, when performed satisfactorily, allow the organization to administer itself, deliver products and services and in general, implement its objectives. Others are more strategic functions and enable the organization to define and protect its core purposes and manage its relationships with other actors in the outside environment. These simple categories can be used when the analysis is at the 'macro' level as well as the 'micro'.

40.   Some other examples of critical functions might be the following:

- Providing security and protection to female health workers in rural areas so as to enable them to live on site at a health post.

- Providing technical support from the district government to community water groups to assist them in managing local water supplies on a partial cost recovery basis.

- The coordination of the implementation of a national conservation strategy involving government agencies, NGOs, private firms and citizens groups during a period of financial retrenchment, staff shortages and high conflict.

- The design and management of a procurement system to keep highway construction and maintenance equipment functioning in the rural areas of a large, decentralized country.

- Maintaining the safety of students in an urban school prone to violence and disruptions without incurring additional expenditures for guards or new equipment.

41.   But identifying the critical functions is not sufficient to answer the 'capacity development to do what' question. Two other issues remain. First, there must also be an acceptance amongst the main participants of the specific way in which the critical task is to be approached and implemented. Taking the Ghanaian example above, district technical staff need to agree on the principle that communities are to take the lead in developing and managing potable water supplies in their areas. What was formerly an engineering function to be managed by professionals now is to be seen as a organizational, cultural, financial as well as a technical matter to be controlled by ordinary citizens. Second, critical functions have to be supported with resources - external political support, client demand, financial backing and staff skills.

42.   Many of the eventual difficulties involved with capacity indicators have their origin in a lack of agreement or misunderstandings about the nature and identification of critical functions. Donors frequently conceive of functions - e.g. policy analysis and formulation - that are of only secondary interest to field participants who are struggling for survival and resources. Disagreements exist within organizations as to which tasks should get attention. The nature of critical functions can also be shaped by the incentives facing field operators as much as by executive decisions of senior managers. In short, a shared understanding of the 'capacity development to do what' question can be deceptively difficult to reach. But much of the subsequent discussion about indicators depends on arriving at a relevant answer to this question.

4.2.   FOR WHAT IS THE CAPACITY DEVELOPMENT STRATEGY TO BE USED?

43.   Strategy making for capacity development remains one of the least satisfactory elements in the broader process of setting indicators. Most efforts at capacity development involve organizational change, sometimes on a large scale. All such efforts are based - explicitly or not - on some sort of implicit change strategy that will influence the direction and sequence of events. They contain assumptions about the nature and source of the problem(s) to be solved, the means to be employed, the timeliness of the intervention, the support behind it, the degree of innovation required and the nature of the desired organizational outcomes to be achieved. These assumptions, in turn, influence the selection and design of the capacity development indicators.

44.   The following are examples of typical change strategies. No judgment is made here on the likely effectiveness of the strategies.

- The problem is the lack of technical skills at the middle and lower levels of the organization. Trained staff is seen as the key to better performance. Staff performance is shaped primarily by what people know.On-the job-training and workshops should be the key intervention. Local trainers will be used given their language skills and familiarity with local conditions. Such training will have a positive effect regardless of other interventions.

- The lack of capacity stems from poor coordination and collaboration amongst participating groups and organizations in a rural health program. A clearer division of labor combined with more synergy is needed. Team building, more information sharing and more interorganizational task forces are the answers. The issue here is one of making use of existing capacity rather than developing anything new. Getting people from different organizations together will increase familiarity, trust and eventually performance.

- The problem is lack of competition and accountability. A government department is reluctant to give up its monopoly over the provision of a particular service. Its political and bureaucratic power makes it difficult to dislodge despite its escalating costs and declining level of performance. Ethnic and regional implications are present. Both the capacity issue and the solution are more political than technical. There is little point in assisting with structural and procedural improvements until the government decides on a new service delivery strategy.

- The process of organizational change is ineffective. There are too many comprehensive efforts at public sector reform which bog down because of undue complexity and staff resistance. Change decreed from the top appears not to work. Better to start some smaller experiments at the periphery, achieve some success with 'early adopters' and then spread best practice back to the center. Major structural change would come at the end of the process not the beginning. The diffusion of organizational innovations depends primarily on the pattern of behavior at the operating level.

- The capacity issue is one of poor incentives for performance. Salaries in country X are so low that talented staff cannot be recruited let alone retained. The Government needs to make the transition to a much more contractually based system in which transparency and accountability are emphasized.

- The problem is an under supply of organizations with specialized skills to carry out certain functions. absence of organizations. There is a 'missing middle' in terms of mid-sized intermediary organizations that can mediate between

government departments and citizens. The use of existing resources will not solve this problem. Something new needs to be created.

- The problem is the lack of demand for effective services. Citizens see government agencies as unresponsive and irrelevant. The challenge is to link organizational performance to continued access to resources. If citizens are given the opportunity and information to pressure service organizations for better performance, capacity development will follow.

- The capacity issue is one of leadership. A new generation of NGO executive directors is required to take their organizations into the next century. A program for leadership development is needed that can combine training, practical attachments and study tours.

45.   Three issues seem relevant when it comes to the strategy issue.[18] First, project participants need to make greater efforts to think through and clarify the vexing questions to do with organizational change that surround most capacity development interventions. A surprising number of capacity development projects have randomly selected indicators that are disconnected from strategy. They derive from a set of strategic assumptions about organizational change that are inappropriate, limited or poorly understood. The connection between crafting capacity and measuring it is lacking. In short, capacity development needs and deserves the same kind of strategic thinking and dialogue that is usually reserved for policy matters.

46.   This need to connect indicators to strategic thinking is even more necessary given the rise of complex 'macro' capacity projects that try to design and implement organizational change on a large scale. These types of complex interventions involve many groups and organizations. Political considerations are pervasive. The public usually becomes involved through various forms of consultations and community participation. A clear strategy can serve to provide direction and cohesion to a set of activities involving many actors.

47.   The second issue relates to the perennial tension between blue print or deliberate strategies and those that are more incremental or emergent. Given the social, organizational and personal changes that can be involved, programs aimed at capacity development can be difficult to predict and manage. Few grand theories, centrally

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[18] Some authors have tried to outline different types of strategies for example, public sector management. Osbourne and Palstrick set out five - the core (help them create clarity of purpose), the consequences (introduce consequences for their performance), customer (make them accountable for their performance), control (empower staff to innovate) and culture (change the habits, hearts and minds of staff). Paul Light talks about four approaches in the US Government since 1945 - scientific management (structure and systems), war on waste (eliminating corruption and bad practices), the watchful eye (introducing greater accountability and transparency), liberation management (empowering public servants) and finally, introducing the market (breaking the government monopoly on a variety of services).

imposed, can be easily implemented given the number of contending interests. Virtually all the participants, both in developing countries and in the donor community, are uncertain about which approaches to capacity development work best, when and under what circumstances. To make progress, participants need to 'grope along', to experiment, take risks, be flexible and be open to new learning. 'Small and simple first' seems to work best. What usually results is an approach to a capacity strategy that is part deliberate, part emergent. Some major decisions that cannot be easily overturned (e.g. regional devolution or the creation of a new organization) must be made early. Others (e.g. the design of training programs or the use of technical assistance) can emerge depending on experience. This critical need for flexibility and adaptation has obvious implications for the design and use of indicators and, as important, for the incentives that participants face in managing their work.

48.   Third, capacity development strategies need to try to instill or at least enhance, a sense of meaning and values in those that either participate in them or benefit from them. The usual kit bag of tools, strategies and techniques need to be infused with some sense of vision and hope that taps into people's aspirations. Capacity strategies need to contain some enduring beliefs and values that command attention, respect and commitment by a wide variety of people. This is particularly the case for capacity programs that must transcend the boundaries of individual organizations and reach participants across a spectrum of organizations, functions and regions. Donors cannot provide such meaning but they can encourage others to go beyond tactic and technique. This need for vision and inspiration also has implications for the design, use and public discussion of capacity indicators.

49.   Some illustrative questions are as follows:[19]

- Is it realistic to speak of a *capacity development 'strategy'* in this situation? Are the participants too diverse and unconnected to communicate? Is it possible to get participants to manage or craft a capacity development strategy? Are they even interested in having such a strategy?

- Are the *participants at the field level* able to formulate strategies as well as describe problems? What assistance might they need?

- Is there a rough *consensus amongst the participants* about a capacity development strategy? How was this achieved? How durable is such a shared view? Does this translate into commitment and ownership?

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[19] For example of more questions that focus on a change strategy, see UNDP, *Capacity Development*, p.26 (Developing A Change Strategy: 12 Key Questions).

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Box 1. An Emergent Capacity Strategy - The Case of The Peru-Canada Fund

In the late 1980s, the Governments of Peru and Canada began to discuss some ways in which they could channel counterpart funds from the sale of Canadian equipment and commodities to selected community development projects in Peru. In April 1988, they established The Peru-Canada Fund as an independent foundation which was designed to "create sustainable development at the local and regional levels as defined by the creation of conditions which allow populations to intervene themselves and achieve their own objectives". The issue then became the following: how best to develop the capacity needed to intervene strategically at the community level without pre-empting local ownership and control.

The capacity strategy chosen was an emergent one. The Fund did not engage in detailed predictions of future results, comprehensive strategies or intricate work programs. Such initial rigidity would likely have drained away the inclination to experiment. But great care was taken to do three things. The two Governments gave The Fund sufficient time, protection and resources to allow it to find its place as an autonomous organization. In effect, they helped to put in place the conditions for safe and effective learning. Second, they created the space and some core beliefs which attracted the social energy, ownership and commitment of a wide variety of Peruvian managers and enthusiastic NGOs. A Canadian-led strategy was not devised in which Peruvians could somehow participate. Little investment was made in staff training. Finally, the two Governments and the staff of the Fund helped to create an internal culture of experimentation, quality and achievement which, combined with the autonomy and commitment, led incrementally to improved capacity and high performance. What is now apparent in retrospect is that The Fund created a 'virtuous circle' of capacity development - growing achievements led to internal pride and external credibility which attracted more resources (e.g. high quality staff) which further increased the capacity.[20]

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- What are *the assumptions* about how these changes should happen? What is the strategy with respect to the diffusion of innovation? Whose behavior will have to change?

- Have the indicators of capacity development been *derived from the strategy?* What would indicate that the strategy had achieved *credibility and support?* What would indicate that the strategy itself was working?

- Which participants have to take action? Who has the *responsibility and the control*? Who can block action? What are the risks in using various strategies?

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[20] For another example of these kinds of virtuous circles or rising spirals of capacity development, see *Local Government Capacity in Columbia: Beyond Technical Assistance*, A World Bank Country Study , 1995. In this case, ..."the success stories in these municipalities are associated with the emergence of a virtuous cycle that could be critical for the sustainability of the process of local capacity development. Responsible leadership and community participation lead to an increase in demands for better governments and, consequently, capacity enhancement. More capable governments tend to attract more qualified and better motivated leaders and staff. Similarly, stronger and more open administrations are likely to promote and advance interaction with citizens. Furthermore, the evidence suggests that leadership and participation tend to reinforce each other...." (p. 16).

- How *comprehensive* should the intervention be? How complex can the strategy be and still be implementable? Should there be pilot and more experimental initiatives?

- Should the focus be on *change at the system level or at that of individual organizations?* Should there be multiple strategies?

- What is the influence of *timing?* Is there a window of opportunity in the near future that would create the conditions for capacity development?

Box 2. Thinking through a deliberate strategy: The case of the Zimbabwe Co-operative Housing Program

By the late 1980s, Zimbabwe was in an urban housing crisis due to a rapidly growing urban population, inappropriate standards for house and lot sizes, insufficient access to capital and central government housing ministries unable to meet the demand. In Harare alone, the official waiting list for housing was estimated to exceed 100,000 families. Elements of a functioning system were in place, e.g. a commitment by the national government, municipal housing departments in the major cities, some 35 housing cooperatives and a willingness and ability of many families to pay a reasonable price for housing. What was required was a different capacity development strategy to build upon existing strengths in the Zimbabwean housing industry and move it to a new level of performance.

This capacity development strategy could be described as shifting the structure and functioning of the industry from one dominated by government to that of a coordinated network involving a variety of actors. The central government shifted its role from providing housing to that of facilitating construction through the private sector. A new NGO support organization, Housing People of Zimbabwe (HPZ), was created to act as an intermediary amongst government departments, non-profit housing co-ops and private sector firms. The number of housing co-ops was doubled and then tripled along with management training programs for staff. Policy changes were made to allow for higher density housing and more affordable lots. Government, building societies and donors worked to improve access for co-ops to affordable mortgage financing. Both governments and HPZ fostered greater awareness in local communities, businesses and the professions of the emerging opportunities. This coordinated approach across organizational and public/private boundaries created what might be termed a 'virtuous cycle' as the different organizations combined strengths and resources to build a national housing capacity. Process reinforced strategy.

4.3.   WHAT PROCESSES TO FACILITATE CHANGE SHOULD BE USED?[21]

50.   Assuming there is an agreed strategy or a set of principles to induce or encourage capacity development, what can and must be done to implement that strategy? What

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[21] The term 'processes' is used here to mean human interactions and behavior rather than formal systems and techniques.

processes are likely to be effective in this context? Do processes come out of strategy or visa versa? Can we measure the effectiveness of processes if they are a form of capacity development?

51.   Process approaches to organizational change have a long history in both the countries of the South and the North, much of which is now finding its way into the planning and implementation of development assistance projects.[22] In most cases, such processes are better understood at the organizational than the system level. These include the following:

- Participatory techniques at all levels including poverty assessments, organizational analyses and social assessments.

- Information dissemination through mass media and through interpersonal contact via field workers and extension agents

- Team and consensus building and visioning through workshops, group activities, and outside facilitation.

- Creation of opportunities for experimentation and a climate for safe learning

- Efforts at stakeholder management and providing space and protection to participants trying to develop their capacity.

- Strategic dialogue and conversation

- Action research and planning

- Dispute and conflict resolution

52.   A key process issue relates to the role of technical assistance in support of capacity development. More is understood now about the uncertain relationship between outside interventions and organizational change based on a good deal of donor research in the late 1980s and early 1990s. Most training interventions by themselves, for example, appear to have little long term effect on organizational performance. Strategies for change driven mainly by donors and other outside groups have little chance of creating much sustainable capacity. Donor TA in the form of advisers and consultants that focuses on 'gap filling'- task accomplishment, program performance and the provision of solutions - turns out to have little sustainable impact. Some of the conventional TA approaches - training, study tours, equipment support, systems advice - are still useful. But what seems most helpful in terms of TA for capacity development is a combination of approaches tailored to provide support and facilitation - the critical injection of resources at certain times, the provision of insights and the dissemination of best practice when needed, the encouragement and

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[22] See, for example, UNDP, *Systemic improvement of Public Sector Management: Process Consultation.*

incubation of promising experiments, the cushioning of risk and the stimulation of new leadership. TA can also help to supply data and information that are needed to manage complex organizational situations. Most of these support functions are at variance with the conventional muscular images of donors 'building' capacity and 'being held' accountable for the outcomes and impact of capacity projects.

53.   Some illustrative questions to do with processes are as follows:

- Is there a consensus amongst the project leadership on the process techniques to be used in support of capacity development? What process techniques should we use? Can we use? What are our assumptions about how *behavioral change* will happen? What behaviors will have to change?

- What are likely to be individual, group and organizational dynamics under different scenarios?

- What is the *best use of technical assistance* in this case? What would be the most effective method of giving advice and process support? How can the donor design its technical assistance to support process management? Can it combine process and gap filling? Should it?

- What kind of *time, space and resources* is being allowed for the process issues? Can the project, for example, pay for travel and communication costs that will have only indirect benefits? What support and patience exists for process-oriented activities?

- What kind of *organizational learning strategy* might work? How do participants learn at the moment? Under what conditions? What kind of structures should be put in place to encourage learning? What are likely to be the constraints to learning? How can they be reduced?

- Who are *the key stakeholders* and what influence could they have on the development of capacity? What factors will govern their behavior with respect to this project?

- Is there evidence of the donor or *funding agency listening* to the views and perspectives of the participants in the field? Have donor procedures been helpful in encouraging processes that support capacity development?

- What are *the different attitudes and values* that participants will bring to process activities? How can trust be built up amongst the project participants?

- What individuals or organizations will likely act as *champions of change?* Under what conditions?

- Is there a need to set up a *separate structure* to manage change?

- To what degree has the project been able to build *a supportive coalition* that can provide it with resources and protection?

- If there is *resistance to change,* what is causing it?

- What indicators might be used to assess the effectiveness of the processes being used?

- Under whose *auspices* will this process work take place?

Box 3. Using a Search Conference - The case of the National Conservation Strategy for Pakistan[23]

In the early 1990s, the constraints to designing a national conservation strategy (NCS) in Pakistan were more behavioral than technical or financial. Government departments operated mainly on the 'stove pipe' principle and showed little inclination to collaborate. Communication blockages were pervasive. Most of the central agencies focused on issues to do with economic growth rather than environmental sustainability. Few incentives existed for government employees to consider the perspectives of other organizations or groups in the public, private or non-governmental sectors. In short, Pakistan's capacity for environmental thinking and action was constrained by a lack of common vision and set of shared ideas on the environmental issues facing the country. No discernible strategy was in place.

Some of the key Pakistani participants decided to put in place a process of consultation that could help to create a better consensus both within the Government and amongst key groups in the wider society. The Search Conference format was adopted. The process began with the conference designers interviewing 80 stakeholders in government, the NGO community and the private sector to define the issues involved in formulating a national conservation strategy. Thirty papers on key issues were then commissioned to reach a wider audience. The first conference was held in Islamabad and discussed different perspectives, goals and interests, constraints and action plans and most important, a more desirable future. Slowly, a sense of the interrelationships amongst issues and the seriousness of the systemic environmental crisis facing Pakistan began to emerge. The need for more collaborative behavior and a sense of trust became evident.

Further conferences followed in Peshawar, Lahore, Karachi and Quetta attended by business men, NGOs, academics and government. Capacity development in the case of the Pakistan case thus focused in its early stages on process approaches that individual and organizations with disparate goals and interests could use to arrive at a common ground and a plan of action. Process in this case led to strategy.

4.4.   WHAT OUTSIDE FACTORS WILL NEED TO BE CONSIDERED?

54.   Capacity development issues, especially those that deal with complex, interorganizational functions, are susceptible to pressures or influences from their context

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[23] see Rodger Schwass, "A Conservation Strategy for Pakistan" in Marvin Weisbord, *Discovering Common Ground,* 1992.

or environment. In this sense, they are open systems that both influence, and are influenced by, their surroundings. To survive, organizations must either draw strength and benefit from an enabling environment or else must have sufficient internal cohesion or external protection to guard itself against threats from outside. Such factors can be divided into a variety of sub-categories: those that are proximate or nearby (i.e. political conflict in the country) and those that are distant (i.e. trends in international economics). Some factors can be influenced (e.g. the attitude of various stakeholders) and some cannot (e.g. drought and climatic conditions). The impact of some are immediate, intense and direct (e.g. political changes leading to personnel shifts) and some are incremental and barely perceptible in the short term (e.g. the rise in the intensity of urban politics).

55.   To judge the reasons behind shifts in capacity, we need to bear in mind the impact of these contextual factors. And we need rough indicators tied to these factors that we can track. For example, some of the following factors apply in many capacity cases:

- The macro-economic situation and its impact on exercises such as public sector reform. This would include such specific issues as salary levels and recurrent cost financing.

- The policy and legal framework within which the project is operating. This would also include issues to do with the rule of law and judicial enforcement.

- Political trends including the intensity of the reform impulse that is supporting efforts at capacity development.

- The informal rules and norms of the broader society that govern transactions amongst people. These would include levels of trust, transparency, corruption, enforcement, incentives and other 'rules of the game'.[24]

- The degree of conflict and complexity that any organization must face in its environment.

56.   Some illustrative questions are as follows:

- What are the *main contextual factors* - political, social, economic, legal, financial - that shape the capacity system? Which factors are likely to hamper the development of capacity and which are likely to be supportive? What are likely to be the most important contextual pressures to affect capacity development?

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[24] For an interesting analysis about capacity development strategies, see Allen Schick, *Why Most Developing Countries Should Not Try New Zealand Reforms,* unpublished mimeo, November 1997 . His point is that many countries simply do have the supportive context and the embedded rules of the game to enable such an approach to be effective.

- What are the *critical assumptions* about risk arising from pressures in the environment? What are the risks of failure of the critical assumptions? How can they be monitored? Can they be managed?

- Which participants would *monitor these factors* in the environment? And how? What indicators would be the most useful with respect to the pressures?

Box 4. The Structural Adjustment institutional Support Project in Ghana

In 1987, the World Bank approved a loan to assist the Government of Ghana in the rebuilding of its capacity to manage its economy. The project had a variety of components including the following: establishing a policy advisory staff under the Ministry of Finance, creating an Economic Liaison Unit to process economic policy decisions, strengthening the Ministry's capacity to manage public investment programming, doing functional and staffing reviews of the civil service and carrying out special policy studies. The request was given priority treatment by the Bank and was supported by the Government. Its objectives were relevant and appropriate to the country's circumstances. Despite this initial enthusiasm, however, the project quickly foundered and never succeeded in building any kind of functioning or sustainable capacity.[25]

The reasons centered mainly on the institutional context in which the project was embedded. Deep disagreements and distrust existed between the political leadership and the senior public servants. Unknown to the Bank, the project became one of the symbols of this antagonism. From the outset, it lacked a broad range of 'champions' who could lend it support. Components that failed early were turned into a source of equipment-supply. Its efforts to modernize staffing and incentive schemes clashed with a variety of rent-seeking practices that were crucial to the power of certain key bureaucratic groups. The risk assessment in the project design was weak and no alternate approaches appeared to counteract the failing performance. In retrospect, the Bank approach was based on a generic model of rational planning and decision making and paid little attention to the specific institutional and cultural conditions in Ghana.

- To what extent should the project *accept cultural and social constraints* and to what extent should it try to change them?

5.   THE DESIGN OF CAPACITY DEVELOPMENT INDICATORS

57.   Given this elaborate introduction, how should we then begin to think about indicators for capacity development? This section puts forward a simple framework for thinking about this question - the three 'P's' for ease of retention. These are as follows:

- The **Product** in terms of actual capacities improved or achieved. This includes a sense of evolution from the beginning of the project, the current state of progress and the projected progress.

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[25] See *World Bank Performance Audit Report #13262* dated June 30, 1994.

- The **Performance** in terms of the substantive program outcomes.

- The **Permanence** or sustainability of the capacity produced.

58.   We need to keep some points in mind when discussing these three aspects. First, they should not be seen as replacing the more conventional frameworks such as the Logical Framework Analysis or a results-based matrix or the inputs-outputs- outcomes-impact methodology. They are designed solely to give participants a simple framework to think through the capacity aspects of a project or program. Second, they are not intended as 'stages' to be looked at sequentially. They are a circle of issues that need to be combined with the strategy and process issues to come up with an overall judgment. Process, for example, affects performance. Predictions about anticipated capacities arise from strategy and estimates of the situation the start of the project. The relationship between performance and permanence is critical.

59.   Third, they should help participants come to some shared agreement on the desired evolution of the organization or system whose capacity is to be developed. For example, a small NGO may start out as a simple structure dominated by its founder or executive director. Over the course of time, its organizational structure and function may evolve as it grows. Field offices may be established. A board of directors may start to play a greater role. It may add new functions such as outreach, policy research or a wider range of clients and partners. Power and authority may be devolved throughout the hierarchy rather than being concentrated at the top of the structure. A broader network may see its capacity evolve as set out in the case of India's Family Welfare Program (see Box 6). New services are added and new actors. Organizational relationships alter to include a broader range of partnerships, contractual links and information exchanges. Values and attitudes adjust. Capacity development indicators need to be set to mirror and monitor this anticipated evolution over time.

5.1.   THE PRODUCT

The starting point of the project

60.   Most capacity indicators are designed to reflect some future desirable state or level of performance. A shared vision of the future and some defining purpose and objectives of the capacity interventions are obviously critical. But in many cases, too little diagnostic effort is made to assess the state of capacity development at the outset of the program i.e., understanding both the 'what' of the starting situation position (i.e. a description of current capacities and the constraints to further improvement).[26] The 'why' (i.e. the deeper systematic causes behind the gaps in capacity and performance) also needs to be understood. To the extent possible, project participants need to try to arrive at some sort

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[26] A number of donors have devised ways to 'map' existing capacities, most of which tend to be underestimated by most participants.

of shared understanding and self-awareness about the nature of the current capacities. They need to start with some sense of the past and present functioning of the organization or the system of which they are a part and an understanding of their own contribution to its performance. The creative tension between 'what has been ', 'what is' and 'what could be' can serve to inject energy and purpose into capacity development initiatives. This baseline information can give participants a clearer sense of progress during the course of the work.

61.   There are obvious limitations to such an approach. Most participants including donors tend to be more oriented to crafting solutions than to diagnosing problems. Few are willing to invest heavily in the provision of baseline information. Most participants tend to focus on the short-term and the symptomatic. There may be no common understanding of capacity issues and no agreement on a set of possible improvements. And few are anxious to submit their current role and performance to rigorous analysis. These constraints can be difficult to overcome. But there remains a need to think carefully about the starting point of capacity development and devise some indicators to reflect it.

62.   Some illustrative questions are as follows:

- What are the *main outlines of the historical evolution* of this organization or system? Where is it? How did it get to where it is? Why did it get to where it is?

- Who are the *main actors that make up the capacity system* including government departments, NGOs, key individuals, private firms, educational organizations? What is the nature of the various relationships - functional, informational, normative, political, regulatory, ethnic - amongst these actors in terms of achieving broader program goals? What is the organizational structure of the current capacity system in terms of roles and responsibilities, decentralization, laws and policies, decision making, coordination etc.?

- What is the *general pattern of behavior* which the project or program must deal with? What is the level of trust and collaboration that surrounds the project? What is the present pattern of the organizational and institutional dynamics that will influence efforts, both from inside and outside, to develop capacity? What is the level of collaboration, cooperation and competition? What is the degree of diversity and fragmentation? Who has expressed the need for change and in what form?

- How can the *current level of performance* be described? What are the key gaps in capacity and performance? What are the causes as opposed to the symptoms of the current level of performance? Is there any consensus about the problems amongst the participants and stakeholders? What are the main issues, both explicit and implicit, shaping the current system? What needs to change?

- Which groups, organizations and individuals *need to change?* How will various changes affect their access to power, resources and their ability to survive? Is there a coalition pushing capacity development that has sufficient influence to get results? Where is the locus of the initiative? Who specifically has the potential to act as senior and lower level champions, as brokers and implementors? What is the pattern and the intensity of their interest in, or opposition to, and commitment to the proposed reform efforts? Under what conditions? What appears to be the predisposition of the participants to learn and to listen? What is the pattern of sanctions and incentives acting upon the present system? Is there a high level of intellectual conviction amongst key participants?

- What are the current *key values or meanings* that shape the current capacity system?What belief systems will have to be addressed?

- What is the current pattern of participant commitment and ownership? Have clients and beneficiaries expressed a view about the effectiveness of the services they receive?

- What are the *resources - human, financial, technological, organizational -* that are available locally? Under what conditions?

- What is the *level of donor interest and commitment?* What is the current dependence on external (donor) assistance for key functions such as recurrent cost financing, staff skills, training, research etc. What is likely to be the ability to absorb outside assistance? Under what conditions?

- Are the *policy objectives* clear? Is there a clear answer to the 'capacity development for what?' question? What are the implications of a lack of clear direction?

- What will likely be the *initial conditions* for success? Do these exist? Is this an appropriate time to start this kind of capacity intervention?

Projected capacities

63.   To be effective, programs aimed at capacity development need some sort of preferred future in mind. Participants need to know what 'capacity development' (as opposed to project or program outcomes) would look like at the end of a certain investment of effort and resources. What new abilities are desirable? possible? probable? What is the gap between the projected progress and the starting point described earlier. Projected capacities thus deal much more with improvements than they do with descriptions. They focus on what people need to be able to do that will, in turn, lead to some substantive developmental outcomes and impact.

Box 5. The present state of capacity development in the city of Washington, DC[27]

A number of reports have recently outlined the lack of capacity and performance of the Washington DC government. Cases of tuberculosis jumped 36% in 1996 at the same time as the District failed to spend $89 million in federal grants which could have been used to treat TB patients. DC awarded 59% of its contracts without competitive bids in 1995 (compared to New York's level of 4%) with an estimated loss in savings of an 10-20% per contract. Only 1% of the DC contract staff has any professional training or certification. It still takes 216 days on average to process a city contract, one of the highest figures of any city in the US. Washington spends more per capita on police, sanitation, fire protection and schools than any other large American city. Yet it delivers consistently poorer services. The Washington homicide rate is 350% higher than that of New York. DC workers pick up 10 tons of garbage per week compared to 39 tons in New York. Washington's overhead figures for fringe benefits, salaries and offices is much higher than normal as is the percentage of employees assigned to administration. Most US cities for example, assign one person per 504 employees to collect and check timecards. In DC the figure is one per 8 staff.

Different groups put forward a variety of causes for the present situation. For some, the answer lies in the behavior of senior DC politicians and administrators. Others see it as the end result of a long and dysfunctional relationship with Congress leading to a lethargic electorate. There is little sense of partnership amongst different groups in the District such as public-private collaboration. Still others believe the answer lies in the history of the District and the influence of the struggle for civil rights in America and home rule in the District. Most DC leaders came to power in the 1960s and '70s straight from the civil rights movement and, from the beginning, emphasized job creation and wealth redistribution rather than employee training and disciplined municipal management. The overriding goal was to provide certain groups with some security and an income rather than better services for all. The DC government was, in practice, built as a political machine whose vested interests began to conflict with those of good management and fiscal accountability. Over time, a deeply entrenched organizational culture was created which has proved resistant to change either from the inside or outside. Few incentives for reform were created that encouraged DC officials to rethink the cost size and purpose of city services. Most outside observers believe the situation cannot be improved from the inside.

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64.   Some illustrative questions might be the following:

- What *new standards of performance* should participants be able to meet? What must groups or organizations be able to do that they are not now doing? Which critical functions (e.g. policy formulation, service delivery, financial management, conflict management) should get priority attention? Who decides this? Who decides who is to be measured?

- What *policy choices* are implied by these projected capacities?

- What *new attitudes, meanings, belief systems and values* should be embraced? How would these be assessed? And when? Is it realistic to expect the project to produce changes in attitudes that have taken years to form?

- What are the possibilities in this situation? What is the potential for action?

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[27] Material taken from series of two articles in Washington Post dated July 20 and 21, 1997.

- Are we likely to see results quickly or over a long period of time?

- What could be the *unintended or unanticipated consequences or the risks* of trying to develop such capacities? How would participants recognize such risks when they occur? Does the project have a strategy to deal with such risks?

- When is it possible to demonstrate these new behaviors? Are there *short and long term results* anticipated in terms of capacity development? What is likely to be the trend over time?

- For what reasons is this level of progress considered to be *feasible as opposed to desirable?*

- *What else has to happen* for this level of progress to be achieved? What has to happen for this capacity to be developed?

- How would improved capacity look to *different stakeholders?* Capacity to do what for whom? Who will lose and who will gain if these project capacities are achieved?

- What are *reasonable time frames* for the achievement of such capacities? How can the project guard against overoptimism?

- How would we assess *the quality* of these projected capacities? i.e. timeliness, responsiveness, accuracy, friendliness, efficiency, effectiveness

Box 6. Projected capacities for India's Family Welfare Program[28]		
Category	**Exsiting**	**Projected**
Primary Goal	Meet norm of two-child family	Still encourage smaller families, but help clients to meet their own health and family planning goals
Priority services	Family planning, especially female	Full range of maternal and child health services
Performance measures	Number of cases	Quality of care, client satisfaction, coverage measures
Management approach	Top-down, target driven	Decentralized, driven by client needs
Attitude to client	Motivate, persuade	Listen, assess needs, inform advise
Accountability	To the bureaucracy	To the client and community, plus health and family welfare staff

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[28] See Measham and Heaver, 1996.

Capacities achieved or developed

65.　　Finally, we need some sense of what the organization or the system can now do and what critical functions it can carry out that it could not manage at the outset of the project. Indicators at this stage are designed to help in the description and analysis of the evolution and growth of capacity development.

66.　　Some illustrative questions might be the following:

- Do the field participants have *an awareness* that they have developed these new capacities?

- Is there *a gap* between what was projected and what was achieved? Why accounts for that gap?

- Are there indicators that would better help us assess the evolution to this point?

5.2. PERFORMANCE OR OUTCOMES

67.　　We return here to the question 'capacity development to do what'? This paper has made the point that efforts at capacity development need to be focused not on abstract organizational generalities - e.g. more participation, less hierarchy, more productive relationships - but on improvements to the critical functions that determine the productivity and health of the organization or system. This, in turn, relates to the two key issues in the complex interrelationship between capacity development and substantive performance. First, programs for capacity development must be aimed directly at performance improvement both in the long term and in the short. Project designers (and managers) must have a longer term vision of what they want the organization or system to do and how they want it to perform. In that sense, these are 'core' goals for capacity development that are fixed and immutable. But measures aimed at capacity development must also be aimed directly at short term tasks (i.e. 2-3 months) in support of the critical functions that may change rapidly depending on the course of events. Most practitioners are only interested in capacity development if they can see its relevance for operational issues facing them in the short term. Project designers thus need to put in place organizational and contractual arrangements that can enhance this flexibility in the short term. In effect, the conventional process of capacity development leading to certain kind of tasks needs to be reversed. Assistance with certain kinds of tasks should lead to capacity development.

68.　　The second issue is the perennial trade-off between 'performance' and 'process' that has bedeviled technical cooperation since its inception. In practice, this is one of the

vicious systemic cycles that is common to capacity development projects. Managers are under pressure to produce substantive outcomes. They feel they cannot take the time or resources to invest in capacity or process issues, e.g. workshops, training courses, learning exercises, research. The organization does not develop individual and organizational skills to meet the performance standards. In response, managers feel even less able to focus on capacity issues which in turn affects performance. The organization becomes trapped in a cycle of poor performance and stagnating capacity from which it has trouble escaping. Donor resources focused solely on achieving improved performance act to reinforce this cycle.

5.3. PERMANENCE OR THE SUSTAINABILITY ISSUE

69. One of the most difficult challenges to do with capacity development is that of achieving sustainability. Part of the problem is that of learning how to either create or manage organizations in such a way as to sustain their capacity and their developmental contribution over time. A sustainable organization is defined here as one that earns, through its products, services and general contributions, the loyalty and support of a sufficient number of stakeholders to allow it to keep functioning at a steady or growing rate. But the reverse can also true, i.e. that ability of organizations to sustain themselves can have detrimental effects. Some organizations can perpetuate themselves long after their developmental utility is over. Much of the trend to privatization is based on the view that the public sector has an excessive population of sustainable but dysfunctional organizations. The issue then is to decide how best the performance of critical functions can be made sustainable. Or how best to maintain the flow of benefits and services with or without the programs or organizations that stimulated those benefits in the first place. How then to combine a concern for sustainability with that of relevance and performance?

70. Part of the approach to inducing greater sustainability lies on the 'supply' side of capacity development, i.e. improving the ability of organizations or systems to perform better, to provide value to citizens, beneficiaries and other partners. In particular, it must gain a legitimacy that gives it the space and the resources to maintain its existence. But the more determining issues appear to be on the 'demand' side, i.e. equipping citizens with the information, access to political power and capacity for making demands that can enable citizens to control and shape the performance of organizations that exist to serve them. In effect, this is a governance issue that goes beyond the more limited scope of capacity development.

71. Some illustrative questions are as follows:

- What is the connection or the interrelationship on this project between formal institutions transplanted from outside and *indigenous institutions* arising from the traditional culture?

- What *long term funding strategies* are possible? Feasible? What is the current pattern of dependence with regard to funding?

- What are the signs, if any, of these organizations 'institutionalizing' themselves or developing *a legitimacy* upon which to base their sustainability?

- What is *the legal foundation,* if any, that underpins longer term capacity?

- What steps has *the donor* taken to address the sustainability issue? What kind of a long term commitment has it made?

- What are the *factors in the context* that will work against and for sustainability?

- What are the factors on *the demand side* that will help or hinder sustainability?

Box 7. The Sustainable Development Policy Institute (SDPI) in Islamabad, Pakistan

The SDPI was established in 1994 with financial assistance from CIDA as a research organization on sustainable development in Pakistan. The need for such an organization was highlighted in the National Conservation Strategy (NCS) approved by the Government of Pakistan in 1992. By the summer of 1997, the research work of SDPI had influenced government policy in a variety of fields such as pollution control, trade policy, structural adjustment and environmental quality standards. In short, the SDPI had succeeded in carving out a useful role and niche for itself in Pakistan. But the question remained: what could it do over the medium and long term to make it sustainable after the termination of CIDA support? What could make this new capacity last?

There are at least two perspectives on this question. The first is that such donor-supported NGOs have little hope of being sustainable over the long term. They work in a style and a language and a level of cost that is unknown to the majority of the population. They focus on issues that are of interest only to the globalized, modernized elite. They end up producing a public good for which there is no real demand in a country such as Pakistan once foreign funding creases. The contrary view is that countries such as Pakistan lacks precisely these new kinds of institutions that can provide specialized advice and access to international learning. Indeed, many indigenous NGOs already rely on the SDPI to acquaint them with international trends that affect their work (e.g. rulings of the World Trade Organization). This point of view contends that if SDPI can continue to provide high quality research and advice, support will emerge, both external and domestic, to make it sustainable.

5.4.   CAPACITY DEVELOPMENT INDICATORS

72.   Set out below in Table 1 are some examples of capacity development indicators which use many of the concepts described above including critical functions and strategies for change.

Table 1. Examples of capacity development indicators.

WHOSE CAPACITY?	CRITICAL FUNCTION (CAPACITY TO DO WHAT?)	EXISTING CAPACITY	CATEGORY	STRATEGY FOR CHANGE	CAPACITY INDICATORS
local financial officials, district assembly members, central financial officials, political authorities at all levels.	Decentralizing payment functions from line ministries to local governments	rudimentary at present as financial systems have been in place only 18 months. Shortage of staff at district level and skepticism at central level.	projected capacities	combination of training, systems development and political change at the central level.	ability of the system to transfer funds between authority levels (say within 45 days of the end of the quarter) and or produce audited statements within six months of the end of the fiscal year.
community water management committees	water pump maintenance in rural areas that cannot be properly serviced by regional authorities	committee can handle routine maintenance but cannot deal with major repairs which require special tools and spare parts.	projected capacities	building a maintenance system that allows central agencies and local governments to provide support to community groups. will require awareness, logistical and incentive changes.	A functioning Pump Management Committee that meets at least once per months and keeps the pump functioning 90% of the time in normal circumstances.
operational staff at the field level of certain central agencies and ministries	need to coordinate information amongst six ministries working on environmental issue of soil erosion in a particular region	staff work reasonably well but are hampered by severe logistical constraints	context	collaborative efforts to put in place low cost transport and communications improvements including fax machines, bicycles, road improvements	25% increase in the number of projects that require contributions from two or more departments.
research staff of government departments	need for government departments to carry out joint surveys of client farmers in delta area of cotton region	no surveys take place at present	process	series of workshops designed to create greater coherence, trust and common approaches to better understand farmer needs	acceptance of survey methods as an effective tool by senior by senior research officers and their incorporation into the work program of the agencies.
technical institute as a whole	need for technical institute to gain	institute is slowly gaining acceptance but	permanence	public awareness campaign which encourages parents	willingness of parents to both pay increase in school

WHOSE CAPACITY?	CRITICAL FUNCTION (CAPACITY TO DO WHAT?)	EXISTING CAPACITY	CATEGORY	STRATEGY FOR CHANGE	CAPACITY INDICATORS
	legitimacy amongst staff, students and parents	is being hampered by financial constraints and stagnating performance		to participate more in the management and design of school programs	fees (say 10%) and contribute labor towards the construction of a new school building.
systemic capacity to manage national park system in a small African country	need to improve interactions between national parks staff and local communities	non existent. local communities resent their lack of benefit from park resources	context	better understanding of the contextual conditions. in particular, need data on number, distribution, income level and ethnic composition of people living within 10 miles of the park boundaries.	increased use of the survey data in park planning parameters
regional managers and politicians	need of for regional authorities to upgrade transportation facilities in eastern part of the region	reasonable at present given resources available but system coming under strain due to growth of industry in eastern area.	process	need to persuade district authorities and private firms to put in place toll roads	ability of the regional authorities to mobilize political support and local resources to support its position with central authorities.
rural electrification agency	need to convert small rural businesses to electricity before the next election	based on current growth patterns and technical capacity, cannot achieve mandated target	performance	partnership with Canadian provincial agency including technical assistance and equipment supply	3,000 new customers to be registered with accounts section by November 1998
system wide across the public service	need to connect government agencies to the Internet by end 1998	only 3% of government offices are now connected	projected capacity	creation of a new generation of information technology managers	study tour of European IT firms plus operational posting to private firms and then posting to designated position in government agencies by January 1999.

# 6.	CAPACITY DEVELOPMENT INDICATORS - SOME OPERATIONAL GUIDELINES

73.	This section sets out some rough guidelines for the design and management of capacity indicators.

## 6.1.	ADVANTAGES AND DISADVANTAGES

74.	What are the benefits to be gained from using indicators? What value do they add?

- The efforts needed to design and manage indicators can push participants to think through cause and effect relationships and their own 'mental models' as to what leads to capacity and performance. Using indicators for capacity development can give an impetus to donors and field participants to think explicitly about capacity issues. This kind of effort is an important step in the process of building a shared vision.

   Using indicators is increasingly accepted as an important component of effective management. Learning to design and manage them effectively is itself a form of capacity development if it improves abilities to manage information, monitor and guide organizational change.
- The proper use of indicators can generate a sense of progress and achievement and can help motivate participants. Information collectors, for example, lower down in organizations can frequently demand to see the results and benefits of their efforts. These pressures can induce managers to be less control oriented and more transparent.

- Indicators can form part of the organizational or contractual relationships that allows donor and other participants to focus on outcome and performance issues rather than the traditional concerns with inputs. This applies to monitoring and evaluation.

- The use of capacity indicators can draw attention to the needs of certain groups that are participants and beneficiaries on projects. They can focus on user needs and help to assess service delivery.

- The use of capacity indicators can help to inform a debate with outside stakeholders about the performance of the project.

75.   But, as has been mentioned earlier in this report, the use of indicators can, in certain instances, have negative effects on project and program performance that outweighs their benefits. What are these effects that must be guarded against?

- Ill-conceived indicators can subvert the wider capacity goals of the organization. Symptomatic, short-term factors to do with capacity development can get special attention. Those that are more easily measured can get more attention. Indicators can also be biased against the long-term. Participants get side tracked onto the wrong issues. The 'what gets measured gets done' syndrome has downside risks to do with introducing performance distortions.

- Indicators are designed to meet the needs the organizational needs of certain participants, usually those that craft the approval document including donors and central government departments. Other participants lose interest and data quality falls. Participants no longer trust the information produced even though the system continues to consume resources.

- Judgments are made mechanically on the basis of the information coming from indicators. Users disregard the state of evolution of the project, common sense or their professional judgments in making assessments.

- The information coming from individual indicators is judged independently and is not part of a systems perspective on capacity and performance.

- Projects lose perspective and start erecting indicator bureaucracies that consume scarce time, funds and attention. Designing and managing indicator systems can become an end in itself and can grow into complex logistical exercises that impose high overhead costs on project budgets and participants. Projects are incrementally turned into organizations whose primary function is to supply information, energy and credibility for the indicators. Measurement systems produce unusable data of little interest to practitioners. To make matters worse, performance management systems focusing on outcomes are loaded on top of conventional project management that still deals with the control of inputs and outputs.

- The potential use of indicator information is not clarified. Participants, especially those lower down in the structure, see it as a tactic by senior managers to allocate blame and punishment. Information is then gamed to reduce risk. Participants cease learning.

6.2.   SOME OPERATIONAL GUIDELINES

76.   The following are intended as some rough operational guidelines for designing and managing capacity indicators.

Use common sense and make it simple

77.   There is an in-built tension in most efforts to design indicators. If they are designed in too complicated and technically intricate a way, most participants lose ownership and interest. And such complexity also tends to shift control to the donor who alone can afford the expert advice needed for their design and management. If they are too vague and simplistic, they lose their diagnostic, relevance and credibility. If a choice has to be made, the emphasis in the early stages of designing CD indicators should be on simplicity of use and ease of comprehension. Most field participants have an intuitive sense of , for example, what 'good capacity would look like'. This kind of common experience leading to sophisticated simplicity is the direction to take. Build credibility and interest in the use of indicators before expanding into complexity. This approach has the following advantages.

- It allows non-specialist participants greater access. Greater simplicity allows local participants to maintain control over the measurement system

- It discourages the early creation of a measurement bureaucracy at the project level that drains time and resources away from other activities

- It creates a greater space for both donors and participants to learn from experience

- It allows for a greater ease of communication to a wider audience who have no interest in technical debates about indicators

Improve their diagnostic value

78.   To be useful, CD indicators have to be equipped with some diagnostic value. We need to remember that the use of indicators, by themselves, offers little conclusive insight or judgment. They offer no hard explanation as to the 'why' or the 'so what' of a particular trend or event. They give little clue as to what can be done to improve the situation. They need to be translated through the strategic thinking or 'mental models' of participants and stakeholders to give them significance. This, in turn, leads to two needs: to set out the various assumptions about the cause and effect relationships that govern the project and second, the need to get some sort of shared agreement on strategy amongst

participants and stakeholders. The use of capacity indicators needs 'rules of the game' in terms of their interpretation.

Connect the indicators

79.   Capacity indicators need to be closely related to, and derived from, strategy, process, contextual factors and performance. They need to be part of an interconnected web of ideas that can allow participants to design them and use the resulting information as part of a coherent framework. This, in turn, means moving to more participatory forms of organizational analysis upon which the choice of indicators can be based[29].

Focus on its use for management

80.   Much of the potential use of indicators centers on performance reporting - to the donor, the community, to government and to other interested stakeholders both domestic and foreign. This is an important use but it is not the one that should get the most emphasis. An important priority for the use of CD indicators should be that of management, i.e. encouraging field managers to use information to shape strategy and process with respect to capacity development. This objective leads, in turn, to a different style of assessment - less objective and technical, more frequent and focused on operational problems, more oriented towards feedback and reflection, more useful for participants and beneficiaries as opposed to evaluators and monitors and more dependent on personalized subjective knowledge.

Build on country ownership and commitment

81.   Donors, in particular, need to be wary about the centralizing tendencies inherent in the use of indicators. Many project participants in developing countries, for a variety of reasons, do not use a great deal of performance information. Working with indicators is seen as part of the transaction costs that must be paid to get access to donor resources. Insufficient effort is made to make the indicator system a critical part of local project management. Some ways to counter this trend are the following:

- Every effort must be made to get country staff to design the indicators themselves as part of a broader program of capacity development. A broad range of project participants usually need to be brought on board to make indicators work. This is the 'what is the use and to whom?' question. In this sense, the test of the effectiveness of CD indicators is the degree to which they serve local interests.

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[29] For an example of these kinds of techniques, see Barbara Benedict Bunker and Billie Alban, *Large Group Interventions: Engaging the Whole System for Rapid Change,* Jossey-Bass, 1997

- Donors need to restrain their inclination to overwhelm local participants with techniques, surveys, procedures, workshops, monitoring visits, indicator consultants and the other paraphernalia of the measurement industry.

- There needs to be a conviction that most projects can produce useful indicators through the application of five things: a shared willingness to experiment, a shared vision of the plan and process to be used, a minimal dose of techniques, common sense and finally, local insight into the functioning of the capacity system.

Experiment to find the right indicators and be patient

82.   In most cases, CD indicator systems take much more time to design and install than participants initially believe. Crude measures or indicators are adopted which are soon criticized as being misleading or inappropriate. The wrong things are being measured or the right things in the wrong way. Information is either poor, non-existent or contested. More sophisticated measures eventually follow but take time to gain acceptance. New staff arrive who must be convinced about the value of the information they receive. A changing cast of stakeholders may have a different set of interests that affect the design of indicators. Tensions develop between those who supply the information and those who evaluate it. Yet more effort is needed to make the system efficient and credible. For many projects, the combined efforts can take 3-5 years or as long as the normal time frame of most conventional projects.

Combine indicator information with judgment and intuition

83.   Capacity indicators are likely to be both quantitative and qualitative. They should be seen as a supplement and an aid to judgment rather than its replacement. Indicators are more 'windows' than they are 'dials' in that they provide openings to other questions. Their accuracy has to be gauged according to the context, the timing and the perspectives of the observers. Their use must be accompanied by judgment, intuition and common sense from a range of participants. The insight they provide needs to be combined with that from evaluation to give a more complete picture. Some other questions that need to be asked are the following:

- How can we know that we now have the right information to make intelligent decisions?
- How can we know what is the right information to look for?
- How can we remain sensitive to and retrieve the information we lost when we went looking for the information we got?

Serve different audiences

84.   Indicators also need to be designed with their substantive purpose, audience and time sequence in mind. They can be used for monitoring and evaluation, for broader policy review, for employee motivation or for management learning, communication and allocation decisions. Different groups of participants, e.g. donor project managers versus field administrators, will have different needs with respect to the type, timing and purposes of capacity indicators. For example, the process and plan/strategy indicators set out later in this report are usually of less interest to the donor community compared to those which can be used to assess output and task achievements. Capacity indicators also need to be designed to assess short-term progress and longer term impact.

Pay attention to the logistics that must underpin useful indicators

85.   The lack of reliable information in many developing countries and the comparatively high cost of producing and retrieving it lead, in many cases, to the need to pay special attention to logistical issues. Costs have to be calculated in the light of indicator design, number, comprehensiveness and availability of information. Budgets for measurement must be allocated. Staff are frequently asked to take on additional information accounting work. They must be given the task of collecting, storing, integrating and transmitting information to fulfill a purpose that they do not fully understand. Such a situation rapidly produces a disconnection between those that produce the data and those that supposedly use it. Without some sort of feedback or indications of the benefits and uses to which such information is put, the discipline and accuracy of such collection systems rapidly decays unless continuous remedial action is taken.[30] Special training may also be needed to help keep up the quality of the information. All of these conditions apply in particular to capacity development given the lower levels of interest of most stakeholders and managers.

Keep the incentives in mind

86.   This is the 'who wins and who loses with indicators?' question and its connection to incentives and sanctions that participants tend to ignore when assessing capacity development. This issue seems more prevalent in cases where the purpose and consequences of measurement are not clear, where the performance of individuals is highlighted, where the connection between information and decisions is hidden or conversely, where performance indicators determines outcomes to do with funding and job security. It is thus important to think carefully about the impact on the assessment system of the pattern of incentives and motivations that shape the behavior of project participants.

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[30] This includes feedback to staff, to communities, to a wide variety of stakeholders.

Keep it flexible

87.   Given the difficulty of predicting the pattern of functions and tasks that are part of the effort to develop capacity, it makes little sense to put in place rigid indicators and preprogrammed packages of work even in the medium term. In particular, locking work programs into contractual arrangements seems counter productive (see the case study in Appendix 1).

7.   SUMMARY

88.   Three themes dominate this report:

- Capacity development needs special attention and focus. It needs practitioners who will think constantly about how best to leave a sustainable institutional legacy. But it loses relevance as an idea when discussed in the abstract. It needs to be focused on operational problems to make a contribution.

- Indicators can be an essential part of managing the capacity aspects of project design and management, both in terms of outcomes and processes. But they need to be designed with care and made relevant to field participants if they are to fulfill their potential.

- Finally, we need to keep a historical perspective on this issue. In the early part of the Twentieth century, government and industry began to employ 'experts' to solve organizational problems beyond what was felt to be the understanding of ordinary staff. The problems 'in here' needed to be resolved by solutions 'out there'. This trend accounts, in part, for the rise of consulting firms and think tanks. In the mid-part of the century, people in organizations began to realize that they could make an important contribution to the solving of their own problems. This trend accounts for the rise of participative management. In the 1960s and '70s, the notion arose that many problems were interrelated and were part of large systems that needed special knowledge to diagnose. Once again, experts and other outside intervenors worked to improve whole systems for other people. What we are seeing now in the trend to capacity development is another turning of the wheel - i.e. the effort to get people and whole communities to improve the performance of their own systems. This approach to the use of capacity indicators needs emphasis.

Donor X provided assistance to a network of industrial workshops providing technical advice, access to machine tools and demonstrations of new technologies, products and processes. The objective of the project was to improve incomes and generate jobs by promoting grass roots industrialization through the transfer of appropriate technology to micro and medium scale businesses. About 300 local staff work for the network in 10 locations around the country. Its functions include consulting services, training, career orientations, introductions to new products, access to credit facilities, market and feasibility studies and some product servicing. The network also plays a role in policy dialogue and advocacy with the Government. The donor in question has paid for only a small proportion of the capital and operating costs of the network.

The project was extended in 1992 but the negotiations with the executing agency (EA) took about two years with most of the time spent on defining outcomes, outputs, sub-outputs and sub-sub-outputs for the first five years of the project and assigning a cost to them by estimating level of effort, cash flow requirements of the EA and share of the total budget. For 1997, for example, 98 separate costed sub-components were defined with 10 having sub-sub-outputs attached. All such decisions were taken in the donor country with little reference to the field staff of the network. The EA was to be paid according to indicators of achievement including those at the sub-sub-output level which would trigger payments. At least 100 invoices per year are required. Over 60 indictors were to be tracked. No provision was made for annual modifications or alterations.

The effects of this approach to capacity development have been the following:

- The high overhead costs of such a complex scheme drives up the EA's costs and reduces the availability of funds to be spent on substantive activity.

- Local commitment was lacking in terms of supporting the Five year Strategic Plan. Only 54% of the local staff surveyed reported their unit paid any attention to the main provisions of the plan.

- Only 38% of the staff felt they had been consulted in the preparation of the results. Most could not name the five main results expected. Many of those that did felt these results did not fit into the broader work plan of the network.

- The contractual arrangements offered little flexibility. Most sub-outputs were too rigid and short term. The project staff including the local staff that worked for the network soon spent a good deal of time trying to carry out contracted tasks so as to allow the EA to be paid regardless of the priority of the task. In effect, the contract reversed the normal role by having the local staff serving the needs of the technical assistance staff. In some cases, the local staff had to cover the costs of achieving certain objectives for which the EA was then paid.

- The contractual arrangements and the delays in reaching an agreement with the donor reduced the incentives of the EA to experiment with any activity that was uncosted and outside the contract for fear of losing money. Given the difficulty negotiating the first contract, there is little enthusiasm to enter into a second round.

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