

Strengthening Capacities for Increased Aid Effectiveness

By Claudia Buentjen¹

Since 2000, when the United Nations (UN) Millennium Development Declaration and the Millennium Development Goals (MDGs) were adopted, the international development community has increasingly recognized the importance of enhancing the impact of aid for poverty reduction. Capacity development (CD), broadly defined as securing a country's ability to manage its own affairs, is now widely regarded as an important component of any aid program. CD is seen as a means to an end which is ultimately defined as full reliance on country systems and reduction of aid dependency.

Paris Declaration and capacity development

The Paris Declaration was adopted during the Paris High-Level Forum on Aid Effectiveness which took place from 28 February to 2 March 2005. It commits developing countries, donor nations, and multilateral development banks to a series of actions designed to significantly increase aid effectiveness. While developing countries committed to assume ownership for their development strategies and associated operational frameworks, donors pledged to align with partner countries' agendas and, to the extent possible, use partners' systems to channel aid funds to target groups. Emphasizing ownership, alignment with country systems, results-orientation, and mutual accountability, the Paris Declaration can be seen as an important milestone in putting CD high on the development agenda.

The following specific CD commitments for both partner countries and donors have been identified in the Paris Declaration:

- Partner countries commit to integrate specific capacity strengthening objectives in national development strategies and pursue their implementation through country-led CD strategies, where needed.
- Donors commit to align their analytical and financial support with partner's CD objectives and strategies, make effective use of existing capacities, and harmonize support for CD accordingly.

- Partner countries and donors jointly commit to integrate diagnostic reviews and performance assessment frameworks within country-led strategies for CD.
- Donors commit to avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programs.

It is noteworthy that to measure progress in implementing the commitments, the Paris Declaration identifies a set of 12 performance indicators at country level, of which two are aimed at measuring progress on CD commitments (Table 1). Quantitative targets for the CD indicators will be determined ahead of the September UN Summit.

To successfully implement the Paris Agenda, partner countries and donors need to review and adjust their CD practices.

Managing capacity development processes at partner country level

Ownership and leadership for country capacity development strategy

The Paris Declaration clearly acknowledges that CD is the responsibility of partner countries and emphasizes government leadership and political ownership for the development strategy. This reflects the growing consensus that development can be sustained if it is achieved by the

Table 1: CD Progress Indicators as Identified in the Paris Declaration

Indicator	Definition
Strengthen capacity by coordinated support	Percent of donor CD support provided through coordinated programs consistent with partners' national development strategies
Strengthen capacity by avoiding parallel structures	Number of parallel project implementation units per country

Source: Organisation for Economic Co-operation and Development (2005)

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country itself. In the Paris Declaration, partner countries committed themselves to prioritize CD investments at country level and to clarify the roles of various internal and external partners regarding strengthening existing capacities. The country CD framework will become an important component of the country development strategy and will increase awareness that improved country capacities are themselves an essential development result. The country-level CD framework is expected to guide future CD dialogue, as well as the implementation and monitoring system for CD interventions. It will also help analyze possible trade-offs between short-term performance and long-term CD objectives. As a first step, it will be important to identify priority cross-cutting and sector capacities.

Conducting comprehensive CD assessments

The Paris Declaration acknowledges the importance of context-specific and in-depth analysis of CD constraints and processes. A comprehensive baseline assessment should normally comprise the following.

- An assessment of the organization with the primary mandate to achieve objectives related to critical cross-cutting or sector functions. The analysis comprises issues of strategy, leadership, internal relationships, structures, and rewards of the organization.
- A stakeholder analysis. Objectives are normally achieved by a network of interconnected players. The CD baseline assessment should, therefore, focus not only on one organization but also on the entire range of players involved in producing a certain output or impact. This allows for a gradual change from project-focused assistance to programmatic approaches and for analyzing and strengthening the roles of civil society and the private sector in producing the expected output.
- An institutional assessment. The governance or institutional context in which the organization or network of organizations is embedded considerably influences the conditions for change. CD is increasingly seen as a complex process that affects roles and responsibilities of players and can be unsettling to existing power structures. Effective CD processes, therefore, require a focus on strategy and tactics and the continuous assessments of relevant institutional factors.
- A competency assessment. This comprises an analysis of individual or personal abilities or attributes that contribute to the performance of the organization or system.

The analysis should draw on existing studies such as country governance and sector assessments, and should closely involve staff of the organizations for which the assessments are being prepared.

Based on the comprehensive baseline assessment, a CD action plan needs to be developed and grounded on some strategic assumptions on those capacities of the organization or network of organizations which need to be performed better to achieve a certain objective on a sustainable basis. It should be recognized that CD programs that focus only on

training programs, tend to be designed too narrowly, because they respond to weaknesses addressed in the competency assessment only, leaving weaknesses identified in the organizational, institutional, and stakeholder analyses unaddressed.

Managing for development results and country accountability structures

Managing for development results requires effective measurement of the success of CD interventions. This requires that country-specific and sector/local government-specific CD frameworks be translated into results-based and budgeted operational programs, which will be monitored regularly. Programs should have clearly defined results and be linked to program-based budgets. CD interventions require attention to process issues. Emphasis on performance, in terms of substantive program outcomes without sufficient attention to process, can lead to results with little sustainability. CD indicators need to comprise factors such as changes in behaviors of organizations regarding performing critical functions, i.e., responsiveness to clients and observed application of risk mitigation measures.

To ensure accountability to national stakeholders, such as national parliaments and directly to beneficiaries, accountability mechanisms have to be in place. Client satisfaction or other surveys should be designed to comprise aspects of service delivery capacity, such as ownership, leadership, and cooperation among partners involved in service delivery. Such accountability systems will be needed at country level, but even more at sector/local government level.

Rethinking donor CD approaches

Consensus on the need for a reorientation of donor CD practices

A growing body of analyses of CD experience and good practices leads to a consensus that development practices need to be reoriented to effectively strengthen country capacities. The analyses largely build on recent donor assessments of CD processes such as those presented in the Learning Network for Capacity Development (LenCD)'s Good Practice Paper on Capacity Development (2005) and the Study on Capacity, Change, and Performance (2005) that is currently being conducted by the Maastricht-based European Centre for Development Policy Management. Both assessments are being carried out in cooperation with the Organisation for Economic Co-operation and Development/Development Assistance Committee's (OECD/DAC) Network on Governance, and have been intensively discussed in preparation of the High-Level Forum leading to the Paris Declaration.

Box 2 summarizes the "Default Principles for Capacity Development," presented in a recent United Nations Development Programme (UNDP) publication that summarizes the current consensus on CD.

Box 2: UNDP's Default Principles for Capacity Development

- Don't rush. CD is a long-term process. It is not amenable to delivery pressures, quick fixes, and short-term results seeking.
- Respect the value systems and foster self-esteem. The imposition of alien values can undermine confidence. CD builds upon respect and self-esteem.
- Scan locally and globally; reinvent locally. There are no blueprints. CD draws on voluntary learning, with genuine commitment an interest.
- Knowledge cannot be transferred; it needs to be acquired.
- Challenge mind-sets and power differentials. CD is not power neutral and challenging mind-sets and vested interests is difficult.
- Think and act in terms of sustainable capacity outcomes. Capacity is at the core of development. Any course of action needs to promote this end.
- Establish positive incentives. Motives and incentives need to be aligned with the objective of CD, including through governance systems that respect fundamental rights.
- Integrate external inputs into national priorities, processes, and systems. External inputs need to correspond to real demand and need to be flexible to respond effectively to national needs. Where national systems are not strong enough, they should be reformed and strengthened, not bypassed.
- Build on existing capacities rather than creating new ones. This implies the use of national expertise as prime option and protecting social and cultural capital.
- Stay engaged under difficult circumstances. The weaker the capacity, the greater the need. Weak capacities are not an argument for withdrawal or for driving external agendas.
- Remain accountable to ultimate beneficiaries. Where governance is unsatisfactory, it is even more important to anchor development firmly in stakeholder participation and to maintain pressure points for an inclusive accountability system.

Source: Lopez/Theisoehn (2003)

Supporting country strategies and CD frameworks

An overarching lesson learned from the recent CD debate is that donors must facilitate and not drive CD efforts. This implies that donors will base their overall support on country strategies and their CD support on country CD frameworks. Donors will be required to strengthen CD assessments and to help partner countries in preparing, implementing, and monitoring results-based CD frameworks at the country, sector, and local government levels.

This has implications for donor business processes and organizational structures. In view of the growing importance of holding policy dialogue and building trust with partners, it will be vital to employ staff with the necessary skills, to set incentives for staff to perform such functions, and to delegate more responsibilities to field staff. Given the need for comprehensive baseline assessments and medium-term approaches and the limited resources available, sector and thematic focus in country programming exercises need to be improved.

Respecting the lead role of partner countries will require donors to increasingly play a role as facilitator/broker. Donors will have to play a catalytic role in helping stakeholders assume leadership and ownership and learn to adapt and change. Faced with the challenge of designing and implementing complex change management processes, it is important for stakeholders to analyze what worked and to apply it to their own circumstances. Learning processes are difficult to promote in conditions which involve complex networks, entrenched bureaucracies, and findings which challenge self-interests and valued ideas. Donors can play an important role in facilitating learning processes and in acting as an honest broker in such situations. The Greater Mekong Subregion Economic Cooperation Program is a good example of ADB acting as catalyst for change (see Box 3).

Developing in-country CD systems

More emphasis needs to be placed on systematically strengthening existing capacities rather than on building up or importing new capacities. This involves an assessment of existing infrastructure, including public and private learning organizations, think tanks, and research institutes. With increased accessibility of knowledge through the internet, knowledge networking, rather than transfer, becomes more important. This involves increasing the ability to make use of available knowledge and to learn from peers.

Box 3: The Greater Mekong Subregion Economic Cooperation Program

The Greater Mekong Subregion (GMS) Economic Cooperation Program was initiated by ADB in 1992. A key feature of the GMS program is ADB's role in facilitating high-level subregional and national ownership through ministerial level conferences and national coordination committees, which define the policy agenda and priorities. ADB has adopted a strictly facilitative approach by helping (i) prepare a long-term action plan that is carefully phased and sequenced according to agreed GMS regional priorities; (ii) identify a small number of cross-border development priorities and infrastructure projects; and (iii) conduct regular joint reviews of the GMS program. Acting as an honest broker for mitigating perceived risks for private investments in the region, ADB has facilitated establishment of a GMS Business Forum. The program covers large cross-border infrastructure projects, e.g., through the East-West transport corridor and other regional initiatives for telecommunications, environmental protection, human resource development, HIV/AIDS, and ethnic minorities. ADB provides a number of loans and technical assistance from its own resources. In its facilitator role, ADB has taken a lead in assisting GMS coordination groups to raise cofinancing for both loans and technical assistance.

Investing in partnerships

Donors will be required to work together with national and regional organizations through common approaches. This involves (i) a focus on a partner's national or sector development strategies; (ii) joint CD assessments; (iii) regular progress reviews based on management for development results frameworks; (iv) implementation of common arrangements for planning, funding, monitoring, evaluating, and reporting; and (v) increased focus on fungible assistance such as program-based approaches and budget support.

Relying on country systems for donor-financed activities

In the Paris Declaration, donors committed themselves to use country systems wherever possible to implement and administer donor-financed activities. This involves minimizing practices that undermine country capacities, such as distorting incentives for civil servants and setting up parallel implementation structures. Donors can preserve existing capacities by avoiding salary structures in programs that make it more attractive to work for donor projects than for the partner country's civil service or other in-country organizations.

Similarly, project implementation units (PIUs) undermine the capacity of partner country organizations to learn by doing, lead to fragmentation of programs, and tend to drain away the best government officials. PIUs will have to be gradually replaced by country systems. Criteria have to be established to identify conditions that make reliance on PIUs unavoidable.

Imposing high transaction costs and administrative burdens on partner countries by bypassing partner countries' budget and accounting systems and failing to harmonize donor procedures is another way of undermining country capacities. Donors have a development and a fiduciary interest in public financial management capacities. Financial management capacity assessments need to be carried out for due diligence purposes; these should be clearly distinguished from capacity assessments in view of identifying CD needs.

Conclusion

The Paris Declaration highlights the comprehensiveness and consistency of the adopted principles ranging from ownership and harmonization to alignment, management for development results, and mutual accountability. Drawing on the lessons learned from decades of development, the Paris Declaration clearly spells out roles and responsibilities of partners, and identifies accountability structures and monitoring systems. The agreements have the potential to contribute to increased aid effectiveness and ultimately to reduce aid dependency.

Translating the principles into actions on the ground remains a major challenge, not only because it requires a change of mind-sets and behaviors on the part of donors and partner countries, but also because the necessary CD processes require time and patience while partners are faced with the challenge of increasing emphasis on delivery of development results.

Increased commitment on aid effectiveness has associated risks. Firstly, commitments might not be fully implemented because of insufficient ownership and leadership to implement substantive adjustments to internal incentives systems, skill profiles, and operational procedures both at partner country and donor levels. Secondly, the commitment could paradoxically create an imbalance between the national and donor capacity and the commitment to change. Funds might be prematurely channeled through country systems, ignoring the findings of risk assessments and existing accountability structures. Thirdly, extensive donor dialogue on aid effectiveness could compete with pressing national operational reform priorities and draw attention away from what is possible rather than what is desirable.

In summary, any approach should give priority to working with partners on identifying more pragmatic solutions within a long-term perspective. This will require periodic progress monitoring of commitments at country level and adjustments whenever implementation falls behind what was envisaged.

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