Perspectives Note:

The Enabling Environment for Capacity Development

January 2011

Forward

In November 2011, the global community will meet in Busan, South Korea, to review progress on implementation of the Paris Declaration and Accra Agenda for Action. Through the Working Party on Aid Effectiveness (WP-EFF), preparations are under way to take stock of progress made by donors and partner countries in implementation of joint commitments. To complement this effort, the OECD/DAC, in cooperation with the professional network LenCD and the Southern initiative CD Alliance, has launched a process to reflect on the specific commitments and implications of the Paris Declaration and the AAA for capacity development.

The purpose of drafting these Perspectives Notes is threefold: (i) To provide a review of the current state of play with respect to CD priorities highlighted in the Paris Declaration and the AAA. (ii) To provide an input to the Synthesis Report on CD key messages for Busan, to be led by a CD Alliance coalition. (iii) To set an agenda for further technical work post-Busan. These Notes also will provide background for LenCD website resource corners.

To ensure coherence and consistency across the five papers, the OECD/DAC definition of capacity and capacity development is adopted as a default: **Capacity** is the ability of people, organisations and society as a whole to manage their affairs successfully. **Capacity development** is the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time. These definitions remain quite general and call for further precision in order to be operationally useful (see box).

Discussing Capacity Development

It is difficult to discuss "capacity development" without first determining what kind of capacity is needed and what it should look like in operation. Without this clarity, discussions on capacity development tend to become general exchanges on what makes for good development practice. The OECD/DAC definition of capacity says little about the nature of capacity. For example, what aspects of it are key to performance improvement? What matters most: the functional (managerial, logistical, technical) or soft skills (learning, relationship building), the tangible (skills, systems, structures) or the intangible (norms, values, attitudes)? What role does motivation (pay, identity, reputation, sanctions-rewards, demand) play? What is the relationship between individual, organizational or society-wide capacities?

There are several ways to give meaning to the term "capacity" and to provide some answers to these questions. UNDP[1], for example, specifies three points where capacity is grown and nurtured: in an **enabling environment**, in **organizations** and in **individuals**. It identifies 4 core issues that influence capacity development - institutional arrangements , leadership, knowledge and accountability - and 5 functional capacities that are central to the outcome of its organizational development endeavors – to engage stakeholders; to assess a situation and define a vision; to formulate policies and strategies; to budget, manage and implement; and to evaluate.

The European Centre for Development Policy Management (ECDPM)[2] distinguishes between "individual competencies" (the ability of an individual to do something) and "collective capabilities" (the skills of a group, organization or system to carry out a function). These interact with the context to create "systems capacity" (the overall ability of a system to make a contribution). ECDPM also identifies five core capabilities which can be further defined in specific contexts - to commit and engage, to carry out tasks, to build relationships and attract resources, to adapt and renew, and to find a balance between coherence and diversity.

Regardless of which of these or other approaches is used, it is critical for practitioners to understand what they are seeking in terms of capacity and to use this as the basis for identifying activities which will help to encourage its development, rather than assuming that certain mechanisms will automatically enhance capacity.

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[1] *Capacity Development: A UNDP Primer*, 2009. New York: UNDP Capacity Development Group

[2] *Capacity, Change and Performance*, 2008, Maastricht, The Netherlands: ECDPM.

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Executive Summary

The context matters for capacity development (CD). It sets the stage on which actors pursue their interests and agendas – both of which are affected by change processes. And CD is change, in most cases producing winners and losers and reconfiguring the balance of influence and power in and between individuals, organizations and groups of organizations.

This perspective paper – one of five in a series prepared by the OECD/DAC as an input to preparation of the High-Level Forum on Aid Effectiveness in Busan in 2011 – collects evidence about how the environment can be more or less enabling for CD, how actors can adapt to or influence the context they operate in, and what the implications are when country and development partners promote CD.

The broad concept of "context" or "environment" can be broken down in structural and institutional factors; as well as actors or stakeholders. Six areas are of particular importance in shaping capacity and CD, with concrete implications for country and development partners:

1. *The Strength of Society, State and Economy:* Capacity development ambitions and approaches need to match the different realities of states, economies and societies. State formation processes matter beyond the fragile situations where they are debated at the moment, and imported notions of what states are, what they should do, and how they should do it, are at best unhelpful for CD.

2. *Informal Institutions:* Understanding the informal institutions is critical for CD. Opening the dialogue about the relative importance of formal and informal institutions, involving local knowledge sources, is essential to adapt to and/or make use of informal institutions when strengthening capacity. Informal institutions may serve pro-poor objectives and overlooking or side-lining them is likely to foster resistance and forego CD opportunities.

3. *Stakeholder Interests and Politics:* Identifying the space for CD and reform requires an intimate understanding of the setting of stakeholders, taking into account the interests, power and energies of those that influence CD processes and who will be influenced by them. The field of stakeholders is an important arena for promoting CD by forming pro-CD coalitions, neutralizing or sidelining opposition to change, and keeping external pressure for CD up.

4. *Incentives and capabilities for sector coordination:* Developing the capacity of sectors to deliver often requires coordination, collaboration and communication across multiple sector and organizational boundaries. Prevailing incentives and capabilities to do this may be limited unless driven strongly from the top. Therefore, ambitions should be scaled accordingly. It may be useful to seek good enough policy coherence; and then to focus CD efforts mostly on what individual organizations have to deliver in this bigger picture. Development partners should pay special attention to avoid adding to the challenge through fragmented approaches that pay lip service only to policy coherence and alignment.

5. *The voice of non-state and state stakeholders:* Incentives to organizational performance are shaped by the strength of the formal and informal voice of citizens, users, media, and check and balances organisations. Looking for means to strengthen those voices which would pressure for more equitable or better service delivery can be an important way of making the environment more enabling for CD.

6. *The quality of broader systems in the public sector:* Incentives to individual performance in the public sector are shaped by core country systems (e.g. PFM, procurement) and civil service

employment conditions. Ad-hoc and narrowly conceived CD efforts should not be expected to work in environments where broader, multi-facetted reform processes addressing country systems may be required – but also much harder to implement. This often implies that incremental "muddling through" is the best alternative; testing, trying and adapting approaches along the road, and accepting that the risk of failure is high.

Country and donor actors can do better for CD when they understand the context and how it influences performance and capacity development. Successful country managers – and successful donor staff - influence what is within their reach and adapt to what they cannot influence. That implies sometimes doing less, sometimes doing more for CD. First of all, it demands a more managerial, strategic and dynamic look at CD and change, requiring that country and development partners change the mental mode in which they traditionally dialogue about and deal with capacity issues as if it was mainly a technical issue.

There are three key messages that will help strengthen CD processes and support to such processes:

- *Make the understanding of the context operationally relevant.* This entail getting roles right: it is country actors that need to factor the context in, departing from a specific CD agenda and respecting the sensitivities involved. Donors can support and broker – if they take over the context analysis is likely to stay at the margins, no matter how well researched and argued.
- *Get CD ambitions right.* Successful CD depends first and foremost on the change readiness shaped by the context, the vision and the capacity and power of those leading and managing change. This may often imply more incremental approaches, a focus on quick visible wins, longer overall timeframes, as well as flexible adaptation to exploit opportunities and avoid dead ends.
- *Harness the leadership and management for change.* Country champions need to invest visibly in CD. They need space, capacity and support when they adapt to and influence the context. Donors need to understand the limitations of the available change leadership and management capacity, and abstain from trying to replace endogenous leadership with their own.

Taking the context into account implies recognizing – operationally - that CD is much more than a technical discipline. It affects interests, reshapes configurations of influence and power, and generates or diminishes energies of external and internal stakeholders. Successful CD requires constant strategizing, brokering, coalition building and conflict management. Dealing sensibly and pragmatically with these often thorny issues is a new challenge that in itself has to be addressed:

- *Open the dialogue and learning between country and development partners:* A more frank and unpretentious dialogue about context factors, stakeholder and change readiness can help get CD and support to CD on a better footing on the road to and after Busan.

Section 1. Introduction

1.1. The Enabling – or Not So Enabling Environment for Capacity Development

"… the need to systematically address systemic capacity constraints, given that applying short-term, quick fix and fragmented capacity development interventions cannot address Africa's real capacity challenges in any sustainable way." (NEPAD 2010)

Context matters for performance. And it matters for if and how individuals, organizations and wider systems develop capacity. This is well known and well accepted. OECD/DAC's Good Practice Paper on capacity development from 2006 thus stressed that "good understanding of context is fundamental" (DAC 2006).

Fortunately, in many countries there is an enabling context not only for broad-based growth and poverty reduction, but also for the simultaneous strengthening of the capacity of the key organizations that can make growth sustainable. In other countries, particularly in those supported by the international aid community, two aspects have proven challenging:

- How to address context constraints to capacity development.
- How to align capacity development efforts particularly in the public sector with the drivers and constraints in contexts that cannot be modified in the short or medium term.

This note aims at providing an overview of the factors in the context that set the stage for CD, and how country partners and donors, respectively, can take these factors into account when promoting and supporting CD.

The **Paris Declaration** underlined that "capacity development is the responsibility of partner countries with donors playing a support role. It needs not only to be based on sound technical analysis, but also to be responsive to the broader social, political and economic environment, including the need to strengthen human resources" (High Level Forum 2005). The "**Bonn Consensus**" on the priorities of capacity development that were carried into to the High Level Forum in Accra in 2008 affirmed that "developing countries will take the lead in addressing key systemic issues that undermine capacity development, with support from external partners as required" (LenCD 2008).

Nevertheless, broader systemic constraints continue to thwart CD efforts – perhaps most visibly in aid-dependent countries and in fragile situations. Despite the intention that partner countries will address systemic issues, evidence demonstrates that it is not easy. This Note analyzes why this may be so, and concludes that both partner countries and donors need to recognize and talk much more frankly about the dilemmas involved when addressing context factors, supporting each other in identifying pragmatic and managerial answers to what can be daunting challenges for CD.

1.2 The concepts and overall structure of this Note

Concepts: In terms of vocabulary, some talk about 'context', others about the 'environment' – often adding 'enabling' even if the environment is actually hampering CD. Thus, for UNDP, "the enabling environment is the term used to describe the broader system within which individuals and organizations function and one that facilitates or hampers their existence and performance" (UNDP 2008). This Note uses 'environment' and 'context' interchangeably. 'Enabling' is only added when the

focus is on positive drivers, while 'constraints' denotes factors and actors that hamper CD. Also accepted is that 'systemic factors' sometimes denotes the broader context, sometimes a narrower 'system' within an organization or sector. Instead of choosing any of the many academic definitions, this Note simply attempts to make clear what is referred to[3].

Structure of the Note: In **Section 2**, the paper summarizes the evidence of why and how context influences performance and capacity development. It first looks at broader structural and economic factors, then formal and not least informal institutions, and finally on stakeholders, their interests and the politics around them. These three sets – structure, institutions and agents – are basic categories which are useful for coming to grips with the issues at a more general level, and they permit thata the following three subsections take a closer look at the resulting incentives for sector, organizational and individual performance and CD, respectively. The focus is mostly, but not exclusively on the public sector. **Section 3** looks closer at the operational implications of the findings presented in the previous section and suggests the implications for country partners and donors. **Section 4** looks ahead to the next High Level Forum in Busan, South Korea.

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[3] Importantly, no matter which term is used, there is no sharp boundary between internal and context/environmental factors. Staff, for example, can be considered internal – but if they are also militants in a political party they are at the same time shaping the context factors. It also depends on the perspective: The governors of a bank may be considered external by staff and executives, but internal by regulatory agencies. Being a formalized link between the organization and its context, they can be located in both the context and the internal realm

Section 2. The Evidence: How Context, Capacity and Change are intimately linked

It is an everyday experience that context matters for capacity and performance: at the individual level, a medical doctor trained in prescribing sophisticated drugs will not be able to use these skills in a remote rural area in a least developed country where there are no drugs or sub-standard counterfeit drugs only. Environmental regulation may intend to force private companies to pollute less – but formal regulations are not adhered to and enforced in the same manner in all countries.

The wider context or environment thus constrains, shapes and renews organizations (Scott 2001). The findings in this note focus on the factors and actors in the context that is most often relevant from a capacity development perspective.

Capacity of individuals and organisations – and CD – results from *internal capacity factors* – but also the *external setting shaped by structural and institutional factors,a s well as by stakeholders.* Evidence indicates that stakeholders can be influenced in the short and medium term, while structural and institutional factors (e.g. the endowment of natural resources or the importance of age for authority) are largely beyond short-term influence of individuals – a perspective of several decades is more appropriate in relation to such factors, and change is often the result of multiple trends and processes that are only discernible with hindsight.

The context is multilayered, with factors and stakeholders at local, national, regional and global levels. Stakeholders at local level – say a community organization – may be able to influence local actors, but they may not be able to influence, say, the leaders of G20.

The environment of structural factors, institutional factors, and actors or stakeholders provides positive or negative *incentives to performance and change* for organizations. In a competitive market environment, organizations must either develop and adapt to the market, or vanish. In the public sector, the pressure for performance most often does not come from a market. It may instead come from e.g. social expectations and norms, the political system, citizens with a voice, economic actors, and different oversight institutions.

Context is not everything. Incentives to perform and capacity are also shaped by internal factors and actors in organizations. One municipality may perform better than another, in a broadly identical context, because it has an outstanding mayor or well-motivated staff.

It is, however, often difficult to sustain such organizational 'islands of excellence' in constrained environments. It the same vein, the more (e.g. civil service) reform works against the grain of prevailing behavior, norms and incentives, the more it encounters barriers, constraints and resistance. Modest, limited CD – for example enhancing the capacity of a national veterinary laboratory – may run smoothly, but it may then face difficulties sustaining capacity and performance at levels that are radically different from other comparable organizations in the sector or country.

Therefore, the more CD and change are at odds with the context the more power is needed to see it through and/or sustain it. This implies that "working with the grain" in an incremental fashion is more likely to render results in constrained environments where the power behind CD and change is limited or uncertain.

CD or reform can still happen "despite the odds" (Grindle 2004a). But CD practitioners need to know the odds; know who they can count on, and shape their efforts accordingly. This adds a dynamic focus

on the *change readiness* of actors – shaped by the context, the vision and the change capacity of actors - to the CD challenge.

One example of how to react to a constrained context is described in Box 1.

<table>
<tr><td align="center">**Box 1: "Ring-fencing" organizations – does it work?**</td></tr>
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The enhancement of capacity and performance of individual public sector organizations – or units – is sometimes attempted through deliberate attempts to "protect" them against the context – including from their own political masters. That is often called "ring-fencing", a somewhat dramatic expression – but vividly indicating how the context is perceived to constrain performance.

Ring-fencing may typically consist in offering better employment conditions than e.g. standard civil service terms; recruitment effectively based on merit; performance-based pay; more extended managerial autonomy and protection against direct political meddling through the legal set-up and governance arrangement – typically through a broadly composed governing board.

Evidence indicates that such an approach has worked well in some areas. Notably, central banks all over the world have since the debt crises in the 1980s moved in this direction, becoming better protected against politicians who may succumb to the temptation of printing money to cover their spending largesse. However, the protection needs to be strong: central banks whose independence is enshrined in the constitution seem to fare better than those who are "only" protected by a law (Gutierrez 2003).

In other areas ring-fencing may work only as long as it is supported by the highest powers in government (Robinson 2006). Ring-fencing may thus not be a sufficient defense if friends become foes. The power behind – or against – the push for better performance may be the most significant causal factor – the technicalities of the ring-fencing arrangements, though important, cannot by themselves ensure performance.

Ring-fencing of this kind has limitations: you can ring-fence a central bank or a fiscal policy unit – in both cases it is relatively few people, with no extended front line service delivery network. But you cannot ringfence broader sectors in this manner. The discussion about how to incentivize performance of broader systems (tax, customs, health, education) or subsystems (cleaning, building maintenance, guards) is often cast in terms of outsourcing – an important and often heated discussion beyond the scope of this note.

The following subsections present findings about those factors that are particularly "disturbing" for CD efforts; which are most often overlooked;, and which are particularly relevant in aid relationships where donors seek to support endogenous CD processes.

Finding 1: The Strength of Society, State and Economy Sets the Basic Parameters for CD

There is an enormous variety between societies, their economies – and their states. This is well-known, but the implications for CD are often overlooked. The states in rich welfare societies developed over centuries, through trade, interstate warfare and a parallel diversification of their economies and institutions. The capacity to collect taxes in the entire territory – virtually from every citizen – was an early feature of the development of these states.

In poorer countries the resources of society – and of the state – are much smaller, including the less tangible resources of state legitimacy, formalization of rules, institutional strength, and the capacity to collect taxes, deliver social and other services. Table 1 illustrates the differences.

Table 1: The financial capacity of various states to provide services to the public

	Population millions 2008	Gross domestic product. Millions of dollars 2008	GDP per capita	General govt. final consumption expenditure % of GDP 2008	General govt. expenditure per capita. Dollars 2008
Colombia	45	242 268	5 384	13%	700
Denmark	5	342 672	68 534	26%	17 819
Ethiopia	81	26 487	327	11%	36
Kazakhstan	16	132 229	8 264	10%	826
Malaysia	27	194 927	7 220	12%	866
Rwanda	10	4457	446	9%	40
Sudan	41	58 443	1 425	16%	228
United States	304	1 420 4322	46 725	16%	7 476
Vietnam	86	90 705	1 055	6%	63
Zambia	13	14 314	1 101	9%	99

Source: Table 1 and 4 of Selected World Development Indicators, World Development Report, 2010, Washington: World Bank. Countries have been included for illustrative purposes only.

In the extremes shown here, the government of Denmark spends about 500 times as much per citizen as the governments of Ethiopia and Rwanda, and 20 times as much as is spent in Malaysia and Kazakhstan. Clearly, the capacity of the state in Denmark and its ability to deliver a highly specialized web of regulations and services is not a useful framework for discussing where and how Ethiopia or Rwanda – or most other countries on the list – should develop capacity in the short and medium term. The difficulties of delivering minimum quality health *and* education *and* a minimal social safety net to a majority of the population – not to mention environmental management, maintenance of infrastructure, veterinary control and police services – for 40 or 200 dollars per capita are obvious.

There are several other important structural factors, including the population density, and the absolute size and diversification of the economy. Such basic structural context factors mentioned above do change, but they do not change rapidly. They set the stage for capacity development – developing effective capacity to deliver for example basic education for all of minimum quality in Ethiopia, on the backdrop of the relative state-society capacity, is a daunting task demanding more than peripheral attention from the government and non-state actors.

Box 2: Expecting too much of Sierra Leone
In November 1999, the government of Sierra Leone signed a Memorandum of Economic and Financial Policies with the IMF in which the government committed to – within one year – *among others* the following tasks: • Reestablish security

- Re-establish the capacity for policy planning and implementation
- Establish programmes to demobilize, disarm and reintegrate ex-combatants
- Resettle, rehabilitate and reintegrate the displaced population
- Initiate a programme of national reconstruction
- Organize elections by January 2001
- Rebuild communities, economic and social services, and infrastructure
- Develop a sound macro-economic framework within which all programmes can be implemented
- Reduce inflation
- Develop a budget and also the capacity to modify it quickly in response to revenue shortfalls or cost overruns
- Narrow the budget deficit but increase outlays on social services
- Start revisiting the tax system and build the capacity of tax collection agencies.

In the event, the conflict in Sierra Leone resumed and made the memorandum irrelevant. A decade after the conflict ended Sierra Leone is still struggling in most of the areas indicated – and it is likely to continue to struggle in many years ahead. (Ottaway 2002).

For capacity development, particularly in a context of development assistance, there are a couple of specific implications:

- *State formation processes matter.* The international debate about states in fragile situations focus strongly on state building issues. This is also relevant in other, less fragile situations. Capacity development ambitions and approaches need to match the realities, recognizing that a 'state' and a 'government' mean widely different things in different regions and countries.
- *Notions drawing on the situation in rich developed countries of what states are, what they should do, and how they should do it, are at best unhelpful for CD.* Both partners and donors may have incentives to inflate expectations as to what capacity the state – and society, for that matter - can develop over short periods, and to promote "best practice" models for e.g public sector management. Such approaches are unlikely to work, particularly in least developed countries. (Pollitt 2000; Schick 1998b; Stevens 2004).

Finding 2: Informal Institutions Matter for Capacity Development

The "hard" structural factors – economy, geography, basic resource-endowment – are only one part of the context shaping capacity and CD. The next in line is the mix of formal and informal institutions.

'Institution' is often used interchangeably with 'organization'. Here, 'institutions' denotes *"the rules of the game in a society or, more formally, … the humanly devised constraints that shape human interaction"* (North 1990). They are resilient social structures of which some are informal (Boesen 2007; Greif 2006; Scott 2001). Institutions are thus the rules, beliefs and norms held in a society – or by different segments and groups in a society. By the constraints they impose they shape what authorities are expected to do and not do; how staff in organizations behaves in relation to superiors and colleagues; how people behave in communities and families; how gender and age differences accord different positions to men and women, and to younger and older persons.

Of particular importance for capacity are the **norms** setting the obligations of an individual to family and kin. In many societies they are still the backbone of social and ethical obligations – and they may well override obligations to serve the public in general, or the obligation not to abuse public office for 'private' gain. Such behaviour which is deemed unacceptable in many developed countries may really

not be for individual private gain, but a socially legitimate and expected means to honour obligations to a community, family or clan that commands stronger loyalty and respect than the state and formal laws and regulations.

The institution of family and kinship obligations may be strong enough to undermine attempts to introduce meritocracy in recruitment and promotion in the public sector[4]. The same is true in the related institution of patronage, where powerful patrons offer protection, or jobs, or both, to clients who on their part offer loyalty to the patron. Notably, patronage is not a phenomenon that societies "grow out of" as they develop their economy and institutions. It still plays a role in rich countries like Belgium, Austria and Japan (Kitschelt and Wilkinson 2007).

Family, kinship and patronage-based institutions are resilient to change. They may also be functional: Kinship/patronage relations may be a more cost-effective and credible way of governing both the economy and state than the alternative of formal contracts and laws, and the necessary accompanying system of credible enforcement. A rules-based formal system only became dominant in Western societies well after industrialization and economic growth had taken off, and though dominant today it is not all-pervasive (Boesen 2007; Grindle 2004b; Li, Park, and Li 2003).

Box 3: Two faces of Informal Local Government Institutions in Karnataka

Informal local government institutions in Karnataka draw their legitimacy from custom and tradition, largely rooted in the system of caste. Though still very patriarchal as custodians of "traditional" norms and rules, they have been able to adapt to changing circumstance, and to perform a wide range of useful, collective activities. These include organising social activities, dispensing informal justice, providing financial and moral support to those in need, and maintenance of local law and order.

The informal institutions exercise public authority at local level through mechanisms distinctly different from those employed by "formal" state institutions. Though their decisions are not absolutely enforceable, they manage to enforce most of their decisions through social pressure. They carry with them the social tensions and gender bias inherent in rural societies. Social conflicts and tensions within the villages are constantly negotiated and managed, sometimes in an oppressive manner, by the informal institutions, but they are neither wholly benign nor totally oppressive institutions.

Despite Karnataka's long and impressive record of democratic decentralization, the local informal institutions are not fading as elected local government institutions (Grama Panchayat) become more institutionalised and influential.

There are several types of interactions between the informal and the formal system: The informal institutions influence formal elections; there is overlap of leadership; they intervene in selection of beneficiaries for government anti-poverty projects; and they perform supplementary informal resource mobilization. As such, they are complementary to, rather than competing with the formal governance system.

(AnanthPur 2004)

Many CD approaches promoted by donors both overlook informal institutional factors and processes – and adopt an approach to CD as if formalization of the informal is not only desirable – which it may well be - but also possible in the short run. This lead to disappointing results and point to two implications for CD:

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[4] In family-run businesses in the private sector it is normal and considered legitimate, all over the world, to recruit and promote based on kinship rather than merit.

- *Understanding the relevant informal institutions is critical for CD.* Donors may not be attentive to these matters, and country partners may perceive them as irrelevant or inappropriate in the dialogue with donors. Opening the dialogue about the relative importance of formal and informal institutions – involving local knowledge sources (universities, think-tanks, community organizations etc.) is essential to adapt to and/or make use of informal institutions when strengthening capacity.
- *Informal institutions may serve pro-poor objectives.* Successful CD can in some cases build on and strengthen informal institutions because they may deliver to groups that formal institutions cannot reach, or because they can supplement and give legitimacy to formal institutions (Helmke and Levitsky 2004). Overlooking or side-lining them – whether done by country partners, donors or both – is likely to foster resistance and forego opportunities.

Finding 3: Stakeholder Interests and Politics Shape CD Opportunities

People matter. Stakeholders, or actors, around organizations make their influence felt in groups or individually. They pursue their interests, and how stakeholders pursue, broker and fight for their diverging interests is the key domain of politics, in the broad sense of the word[5].

"Macro-politics" result in e.g. fiscal and monetary policies that will deeply impact if and how there is room and energy for CD in the public and private sector. If a small elite has captured the state and is mainly pursuing own interests, then attempts to foster CD for public service delivery to poor rural communities is likely to be at best extremely difficult. If there are strong corporatist elements in the state – a tight and exclusive network between the political and business elite – then it is likely that attempts to strengthen the capacity to ease life for new market entrants (registration of businesses; fair competition in tenders; access to credit etc.) will be met with open or subtle forms of resistance.

The "micro-politics" in and around individual organizations, sectors and localities also matter. Different public sector organizations do not only cooperate, but also compete about mandate, turf and budget – and attention and support from donors. A local strongman may effectively govern local public organizations, making it difficult for the formal managers to deliver according to their formal mandate. Labour unions may play a positive role protecting the rights of their members, but they may also effectively make it difficult to combat absenteeism and introduce promotions based on merit.

On a positive note, a government leadership pushing for increased performance in the public sector and sanctioning poorly performing managers and staff will create an enabling environment for CD. The history of the Asian "tigers" (Hong Kong, Taiwan, Singapore, South Korea) includes such a positive push (Hamilton-Hart 2000; Srivastava 2004) – notably within government systems where patronage and some level of corruption continued to be present. Recent research from Africa also indicates that a "disciplining pressure" from above is one of the ingredients for enhancing capacity for local service delivery (Booth 2010).

Box 4: Leadership – its importance and limitations

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[5] Politics – political processes –result in policies (or lack thereof). In English the distinction is common – but in e.g. Spanish there is no distinction between politics and policies - *politicas* covers both connotations.

It is often stressed that leadership – external and internal to organizations - is essential for change, reform and capacity development. Outstanding leaders make a difference – they can lead change despite the odds, working against the grain of societal expectations, institutions and other contextual factors.

On the other hand, much trust and hope have also been invested in promising leaders that eventually succumbed to the pressures of their environment and the temptations of the ample opportunities for personal enrichment that their power created, unchecked by checks and balances in the political and juridical system. Leaders have thus reversed reforms they had earlier championed, or ended up in power-preserving patronage politics producing few benefits to poor people.

The importance of leadership should therefore be recognized, but it should also be recognized that leadership is shaped by the context in which it unfolds. The success of leaders depends critically on some degree of match between their goals and enabling factors in the context. They can successfully work against the grain in some aspects, but not in all. And unless their achievements are solidly institutionalized, and their power adequately balanced by social, institutional and legal means, there is always a risk of reversal.

The actual importance of leadership for CD is, therefore, contingent on the broader support that leaders command and generate; the obstacles they face; the checks and balances; as well as the resilience of the concrete results that they leave behind them. A recent study done for the World Bank Institute (Andrews, McConnell, and Wescott 2010) concluded that:

- Leadership is more about groups than individuals, given that there are likely to be multiple people exercising leadership in any successful change event.
- 'Leaders' are identified more because of their functional contribution to change than their personal traits or authority (and the 'connecting' function stands out).
- Leadership contributes to change when it builds change space—where leaders foster acceptance for change, grant authority to change (with accountability), and introduce or free the abilities necessary to achieve change. Change space is especially enhanced where leadership facilitates open access societies and learning organizations in which members are empowered—in groups—to pursue change through problem solving.
- Leadership manifests in different ways in different contexts, depending on contextual readiness and factors that shape change and leadership opportunities; but the key characteristics of plurality, functionality, problem orientation and change space creation are likely to be common to all successful leadership-led change events

The politics or political economy shaped by stakeholders thus shapes the options for and constraints to CD. CD – and change – creates winners and losers not only inside organizations, but as much in the environment: other organizations and individuals involved in governance, oversight or acting as suppliers will stand to gain or lose; and so will actors on the "demand-side" (citizens/customers). A genuine decentralization reform is likely to strengthen local power holders and weaken central level stakeholders; strengthening the capacity to deliver health services to rural women may take attention and resources away from health services to the urban middle class.

Ownership – a key precondition for successful CD and reform - is often understood to imply commitment, sense of responsibility and active involvement or engagement in the pursuit of specific objectives. The stakeholder perspective implies that ownership (and leadership) cannot be seen as an individual or static affair (or an individual choice). Comprehensive CD and change demands a broader ownership where various stakeholders must engage. Ownership is thus an outcome of constant bargaining processes between stakeholders that are actively for change, those that passively accept it and those who resist it. It is therefore likely to vary over time.

When a stakeholder perspective is applied close to specific CD and reform processes stakeholders and their ownership turn out to be specific individuals that can be influenced, as illustrated in Box 5.

Box 5: Strategizing about policy development space in Bolivia – stakeholder analysis in practice

In 2008, the Land Reform Institute (LRI) in Bolivia recognized that its current policy and strategy was too limited in scope and needed a revision to move from a narrow perspective on land reform to a perspective of recurrent administration of rural land in Bolivia. To accomplish this revision the LRI wanted to draft a new policy and present it to the Ministry of Rural Development.

Applying a political economy and stakeholder perspective at this situation led to a fruitful analysis of previous policy formulation experiences that had resulted in draft policy documents – prepared by the LRI – which had later collected dust in the Ministry and therefore lacked formal recognition and approval by external stakeholders.

Following this, an analysis was made of the likely interests of different concrete actors – identified by name and position - regarding a new policy, and the likely commitment that external stakeholders could be expected to invest in a policy formulation process. The analysis was not made in one clearly organized process – it emerged from numerous ad hoc discussions in the management group of LRI.

The analysis led to a realization that drafting a new policy by the LRI would at that moment not be likely to lead to the broad buy-in from the other stakeholders that would be needed to implement a revised policy. The LRI would not be in a position to engage others in a broader policy formulation process in an election year, and would have particular difficulties reaching beyond their own mother ministry to e.g. the Ministry of Finance which would play a key role if or when taxation instruments would be used to incentivize productive use of agricultural land.

For reasons related to the overall planning and budgeting process in the country the new policy would still be drafted, but the expectations as to what it would accomplish were becoming more realistic – a realism that could later be shared with the international partners supporting the LRI.

Interestingly, the discussion of the "politics of policymaking" and strategizing based on this discussion was a new experience for those involved in drafting the new policy. Though they were perfectly aware of the "grand politics" of the land issue in Bolivia, they were not accustomed to think in terms of "process politics" and in applying a political judgment in terms of both policy content and policy processes..

(Boesen and Jensen 2009)

There are two key implications for country and development partners from the fact that stakeholders, their interests and the politics around these shape CD and change opportunities:

- *Identifying the space for CD and reform requires an intimate understanding of the setting of stakeholders, taking into account the interests, power and energies of those persons and groups in the context that influence CD processes and who will be influenced by them.*
- *The field of stakeholders is an important arena for promoting CD by forming pro-CD coalitions around specific agendas, dealing with opposition to change, and keeping external pressure for CD up. Such work is an indispensable part of successful change management and CD.*

Finding 4: Incentives and capabilities for sector co-ordination matter for CD

The structural factors (finding 1), the institutions (finding 2) and the stakeholders (finding 3) together shape an environment of incentives for performance and for capacity development at sector, organization and individual level. This finding and the following two draw attention to some common implications that make CD efforts difficult and complex.

At sector level, it is firstly important to recall that sectors are not silos where public and private organizations and stakeholders pursue their goals in isolation from other sectors or from each other. Particularly in endeavors such as promoting agricultural growth, or performing environmental

management, several sectors are involved – in agriculture this includes infrastructure, finances, trade, education, research, water and environment – not to mention agriculturalists themselves. The public part of all these sectors are among other shaped by the effectiveness of public financial management, the availability of financial and human resources, the capacity of the political system, as well as the effectiveness of governance, oversight, accountability and the level of voice of stakeholders (EuropeAid 2008b). The private part is for its part shaped by e.g. the effectiveness of the public sector, of access to markets and supplies, and of the inclusive- or exclusiveness of different associations of market players.

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Box 6: Struggling with sector coordination in the agricultural sector wide approach in Kenya

Country and development partners working together in sector-wide approaches are often keenly aware of the need for extensive co-ordination of actors in and beyond the sector. In Kenya, a special Agricultural Sector Co-ordination Unit (ASCU) was established in 2005 with the mandate to facilitate and add value to the reform process and co-ordinate the sector ministries' and other stakeholders' efforts towards the implementation of the Strategy for Revitalizing Agriculture vision from 2004.

Five years after its establishment, the ASCU is still struggling to fulfill its co-ordination mandate. ACSU's partners comprise not less than 10 ministries, 10 development partners and 5 private sector, civil society and research organizations. ASCU is still funded by donors and staffed with advisers, and though it is perceived to be the principal change agent for agricultural reform is does not have the political clout to press its agenda forward. A Technical Committee, constituted by senior civil servants from the Ministries, is supposed to give direction to the ASCU, but only meets irregularly.

A functional analysis of ASCU in 2006 identified a number of the weaknesses that seem to persist as of today, where it has been agreed to conduct another functional analysis of the unit.

(Donor Group 2010; Muhindi 2006)

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This complexity is a huge challenge: Achieving an even modest level of effective coordination of policy and implementation will demand a capacity rarely available in resource-constrained environments. The coordination capacity is not only precarious in technical terms, but also in political terms: while many organizations are willing to co-ordinate, far fewer are willing to be co-ordinated – aptly expressing that co-ordination is a political game of gaining or losing influence, rather than a technical discipline. In addition lateral exchanges at lower levels may neither be encouraged nor tolerated as they may be perceived as undermining the power of executives (Kitschelt and Wilkinson 2007).

Adding to the difficulties in particular in aid dependent countries is the number of development partners operating in fragmented manners. This is a core theme in the Paris- and Accra-agendas, and it underlines that donors can be part of the contextual problem despite their individual commitment to help country partners finding solutions to the CD challenges. In this perspective, donors may in many instances contribute significantly to CD not so much by offering dedicated CD support (advisors, training courses, twinning arrangements etc.), but simply by easing the burden of coordination of multiple, fragmented support schemes. The difficulty for donors to do this points, of course, to constraining factors and incentives in the domestic context of donors – these factors shape the capacity of donors as much as the context shapes the capacity of partner country organizations.

The fact that systemic factors shape incentives and capabilities of organizations to engage in effective coordination, collaboration and communication with other organizations has implications for country and development partners promoting CD:

- *Developing the capacity of sectors often requires co-ordination and collaboration across multiple sector and organizational boundaries. Prevailing incentives, capabilities and spaces to do this may be limited unless driven strongly from the top. Therefore, ambitions should be scaled accordingly.*
- *When seeking to develop sector capacity, it may be useful to seek good enough policy coherence and alignment of institutional mandates; and then to focus specific CD efforts mostly on what individual organizations have to deliver in this bigger picture. Development partners should pay special attention to avoid adding to the challenge through fragmented approaches that pay lip service only to policy coherence and alignment.*

Finding 5: Capacity and change is shaped by the voice of non-state and state stakeholders

Individual organizations also are subject to context drivers of and constraints to performance. The focus here is on public sector organizations, because these have been in focus in the Paris and Accra declarations and because results have been relatively disappointing here even where economic growth and poverty reduction has progressed well (Independent Evaluation Group 2008; Painter, Hop, and Quang Khoi 2009).

In the absence of market incentives, who are demanding performance of public sector organizations? Who push and pressure them – and in what directions? Who in the context have, in short, voices that influence incentives to performance? Which demand-side governance and accountability factors shape the incentives to performance – and CD – of organizations (World Bank 2003)?

In principle public sector front line units should deliver because they are instructed to do so through the political and administrative system. The reality is that they tend not to do that well unless the users – parents in schools, clients needing health service, farmers demanding feeder roads – are somehow able to directly demand the services at local level, and hold the front line service providers accountable for their performance (Booth 2010; Overseas Development Institute 2009).

The ability of citizen groups to voice their demand for services varies with their position and power: The urban educated middle class has most often a stronger voice than e.g. rural dwellers. But urban poor may also command considerable bargaining power. They can much more easily threaten the political elite through demonstrations and riots, as witnessed e.g. when governments remove or decrease subsidies on bread or other essential food items, or on gasoline.

Citizens' voice is not the only demand-side factor: Critical media attention and outspoken civil society watchdogs can also put pressure on organizations to perform. On the more formal side, the effectiveness of check and balance institutions matters: if external audits are effective and findings enforced, then there will be stronger incentives to play by the rules. If citizens can effectively complain when services are not delivered, then that will also add to the positive incentives to performance.

Such a broad view on governance and accountability mechanisms can help to identify if and how the context of performance can become more enabling. It is, however, no panacea: informal pressure by elite groups to privilege their interests may well be stronger than the voice of poor people. It is

therefore necessary for both country and development partners to adopt a broad and realistic view on the various governance and accountability mechanisms (EuropeAid 2008a).

- *Incentives to organizational performance are shaped by the strength and composition of the formal and informal voice of citizens, users, media, and check and balances organisations.*
- *Looking for means to strengthen those voices who would pressure for more equitable or better service delivery – can be an important way of making the environment more enabling for CD.*

Finding 6: The quality of broader systems in the public sector affects performance and CD options for individual organizations

This section looks at the incentives created from the "supply-side" – e.g. how funds are made available to organizations through the budget process; the conditions under which civil servants work, including rewards and sanctions; and the space for autonomous managerial action.

The budget composition – balancing salaries and operational funds

An effective organization needs a budget that balances funds for salaries, investments and running costs. Agricultural extension officers without means of transport will not be able to visit farmers. Unfortunately, despite progress imbalances in budgets continues to be frequent, most often following a pattern of assigning more to salaries than to the necessary investment and operational costs.

This leads to difficult dilemmas: cutting down on staff to be able to increase investments and operations is politically difficult, particularly if public offices have been distributed not only to deliver public services, but also as part of a patronage system that underpins the power structure. Those who could change the system – the political elite of ministers and politicians in parliament – may have powerful incentives not to do so. Short-term "shock treatments" – dramatic "rightsizing" exercises – are likely to be feasible only in deep crisis situations. In the absence of strong drivers, a gradual approach to address the imbalances is likely to be more feasible – but meanwhile this may impose strong limitations on both performance and other CD efforts in the public sector.

Public financial management (PFM) and procurement systems

PFM systems – including procurement and recruitment systems – has to be effective enough to ensure that the budgeted funds, staff and items are made available for front line units when they need them.

Frequent problems from the front line perspective are that funds come late (particularly operational funds); do not come in the amount foreseen in the budget; or do only come after personal interventions that are costly in time and political capital.

Outright leakages, corruption and nepotism may be part of the problem. In some countries, prospective civil servants (including teachers, nurses and policemen) have to buy their position. They are expecting a return on this investment, often beyond what meager public salaries offer. It may also be normal that tenders are rigged, either by colluding bidders, and/or by kick-back mechanisms from successful bidders to those running the tenders. The vulnerability of procurement processes seems particularly high when the policy and business elite is closely interwoven and the formal regulatory framework weak compared to the informal.

Fraud and corruption may be more or less pervasive, but it is important to stress that a PFM system can be fraught with multiple problems that do not imply formally illegal behavior. The initial

budgeting process may be flawed or even mostly symbolic; banking systems needed to transfer money (e.g. to distant rural schools) may be slow; and red tape – often introduced with the intention of ensuring compliance through control – may slow down proceedings. Room for discretionary decisions is on the other hand often part of how the power system works and may result in deliberately incoherent and unclear procedures.

There are positive experiences of strengthening country systems, including both PFM and procurement capacity, but it is harder to ensure progress in low-income countries than in middle-income countries (Independent Evaluation Group 2008). As in so many other areas of capacity, the lessons learned indicate the importance of being realistic about what is politically and institutionally feasible; that changes in behavior and organizational culture is the crucial and difficult part; and that it is important to deal with basics first (EuropeAid 2009b; IMF 2006; Independent Evaluation Group 2008; Müller and Witt 2006; Santiso 2006; Schick 1998a).

Weak PFM has profound implications for performance at the front line. If core country systems are ineffective, they may foster a vicious circle where country actors themselves tend to bypass country systems, thereby undermining them further. Why invest in preparing the budget well if it is unlikely that the money will be made available? And why accept being accountable to citizens for results, if it is not within reasonable control of front line service providers to deliver these results?

For CD in the public sector at large this multiplies the importance of the lessons referred to above: realistic ambitions; attention to culture and incentives; and a focus on basics first. CD at local level will often be critically dependent on improvements in e.g. PFM and procurement at sector or national level and cannot be expected to jump far ahead of broader system-wide improvements.

Civil Service Reform

The conditions under which civil servants work – recruitment processes, salary, non-salary benefits, career opportunities, rewards for performance, sanctions for non-performance, supervision and management modalities – will add strongly to the motivation of individuals. These issues are often considered in attempts to promote civil service reforms that aim at strengthening the enabling environment.

The first port of call in this context is often salaries – because they are claimed or perceived not to provide sufficient incentives for staff to perform. Often, salary compression – the difference between low and high salaries – is also seen as making it difficult to attract highly qualified staff who may find better conditions in the private sector or abroad.

Comprehensive pay reform is, however, neither easy nor in itself leading to enhanced performance. Pay increases are politically easy but threatens fiscal prudence. Increasing salaries for one group – e.g. teachers – will often lead to pressure from other big groups. Furthermore, salary reform – including monetization of fringe benefits – may not lead to increased performance because there are multiple other constraints on performance.

Such constraints can include that career prospects are linked to connections rather than merit, and that performance monitoring by managers rewards loyalty and obedience over results. Effective sanctions may not be at the disposal of managers. Results-based management and performance-based contracting of senior public sector executives have been sought applied in developing countries as a means to enhance the environment for performance. Success has been limited, pointing to a web of contextual factors that cannot easily be unbundled (Independent Evaluation Group 2008; Levy 2007;

Levy and Kpundeh 2004; Pollitt 2000; Schick 1998b). This does not detract from the importance of civil service and pay reform, but underlines that such reform is a complex and extended process.

Limiting the space for managerial autonomy

The combined effects of the context factors discussed in this section may produce an environment where managers have little control over staff and resources, and thereby too little autonomy to shape actions and performance.

Attempts to identify the golden bullet that could initiate a positive spiral of gradually improving performance and give managers room to manage and perform under such conditions have not been successful. Evidence indicates that several of the areas discussed need to change – incrementally - at the same time. What the combination of processes should be seems to be contingent on the situation in the country and/or sector – and may only be known with hindsight.

- *Incentives to individual performance in the public sector are shaped by core country systems and civil service employment conditions. Assessing their quality and prospects for change requires identifying what is often several root causes and how they may interact in a pattern.*
- *Ad hoc and narrowly conceived CD efforts are unlikely to work in constrained environments. Broader, multi-facetted and incremental reform processes may be required – but also much harder to implement. This may leave country partners and donors with few alternatives to keep perspectives clear while muddling through; testing and adapting approaches along the road, and accepting that the risk of failure is high.*

Section 3. Operational implications for country partners and donors

It is a key finding that CD and change will meet more resistance from the context the more comprehensive it is, and the more it is at odds with the context. The stronger the resistance, the more power is needed to overcome it and sustain change.

In this perspective, successful CD is possible when it matches available *change readiness.* Change readiness is shaped by: i) an existing situation that is enabling – the subject of this Note; ii) an appealing vision that leads the process to capacity development; and iii) the availability of capacity to manage change (EuropeAid 2009c; World Bank 1999).

This has three sets of concrete implications that are further detailed below:

- *Successful CD must build on a thorough understanding of the drivers and constraints in the context. To be operationally useful, this understanding must specifically identify and build on the change readiness in the situation.*
- *In constrained environments, CD agendas must temper ambitions so that they match the present context while at the same time seek to influence binding contextual constraints.*
- *Successful CD demands endogenous leadership and management that are able to harness energy and power sufficient to influence stakeholders, build pro-CD coalitions and institutionalize progress despite adverse context factors.*

These implications are all phrased in a language of *dynamics* – energy, power, leadership, pressure, resistance etc. This section will add further emphasis on the importance of *strategy*. Simply stated, dynamic situations require a strategy -- while static situations require a plan. CD and change take place in or create dynamic situations where classical planning tools often are inadequate.

Charting a course in these waters of change is likely to be new for country partners as well as development partners, and it requires a frank dialogue about opportunities, tensions and dilemmas that is part and parcel of CD efforts.

3.1. Make the understanding of the context operationally relevant

Over the last couple of decades, there has been increasing focus on understanding the context. Studies of drivers of change, power, governance and political economy have all sought not only to understand what is going on "behind the façade"(Harth and Waltmans 2007), but to draw operationally relevant conclusions from these studies.

This last step has been difficult (Dahl-Østergaard, Unsworth, Robinson, and Jensen 2005; GOVNET 2005). Despite an increasing number of toolkits for political economy and stakeholder analysis, the results tend to stay at the level of understanding – rather than helping actors to do better.

There are various reasons why it has been difficult. Firstly, most of the political economy analysis has been undertaken by donors. This mostly helps donors to *abstain* from doing things, realizing what will not work – but donors are, obviously, seeking what they can do, and less enticed by an understanding that limits their scope of action. Secondly, country partners have not welcomed the plethora of donor-driven assessments which often end up passing judgment on them from normative viewpoints (DAC

2008; Rakner and Wang 2007). Thirdly, analysis has often been at national level, rather than on concrete groups, individual stakeholders or in relation to well defined problems.

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Box 6: Making context analysis operationally meaningful – public sector reform in Vietnam

Vietnam has an ambitious Public Administration Reform programme running, in place for the last 10 years, as well as other initiatives including devolution, simplification of rules and regulations, and an anti-corruption drive. These different initiatives have had different degrees of success and impact – but they all address systemic capacity issues across the public sector. Among the constraints are weak incentives to coordinate across units, agencies and ministries – a phenomenon also visible in the different attempts to enhance capacity across the public sector.

In a learning event about CD in Vietnam, held for the Ministry of Planning and Investment (MPI), a small group of Vietnamese officials and Vietnamese staff in a donor agency discussed whether and how it would be feasible to think of a renewed push to speed up public sector reform and CD. They analyzed both wider context factors – including century long traditions of public administration – and the interests of concrete stakeholders that might support or resist change. .

This assessment of "change capacity" or "reform readiness" led to the conclusion that for the time being, a modest, incremental approach to CD that would supplement other ongoing initiatives might be feasible, but not an attempt to create a more comprehensive, coordinated and coherent initiative. The basic analysis was that addressing the wider incentive issues in the public sector would require a much more decisive and powerful push than what the MPI would be able to muster on its own – but that there were, nonetheless, significant room for making small improvements in capacity that could lead to visible improvements in service delivery, regulation, service orientation and relations with citizens.

The learning event demonstrated that context analysis can usefully help domestic stakeholders bring CD down to earth, shaping a CD framework that has a good fit to the drivers of and constraints to change.

Source: EuropeAid (http://capacity4dev.ec.europa.eu/path-many-small-steps-forward)

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These observations also point to promising ways forward for converting understanding to action:

- *Get roles right – those who matter need to factor in the context.* An understanding of the environment is worth little if staying with those playing second fiddle in relation to CD and reform processes. It is the primary change agents – pro-CD country partner managers, politicians and non-state change champions – that must integrate and "own" the understanding of the context. They may have the tacit knowledge about what their context allows and does not allow – but making it explicit and shared in an appropriate manner is helpful.

- *Focus on a specific agenda:* Political economy analysis should be linked to a *specific* agenda for CD or reform, enabling it to focus on the concrete drivers and constraints in relation to this agenda. Structural and institutional factors are important as they are setting the stage– but it is the focus on stakeholders – eventually individual persons – that makes analysis actionable, because stakeholders can be influenced.

- *Work in protected spaces and respect them.* A soccer coach, analyzing the likely strategy that the opposing team will employ, will never do this publicly – nor will she reveal her strategy for winning the match. Organizations – like individuals – do not and should not share all

information about themselves with others. Part of the work around "systemic factors" and stakeholder interests is better suited for informal dialogue than for web-wide publication.

The message to partner countries is to more explicitly factor context into their strategizing about reform, change and CD. Donor concerns should primarily be to assist partners, if necessary. This may cause donors deliberately to stay at arm's length of such endogenous analysis of the context and subsequent strategizing about CD, and to limit their involvement to provision of analysts and facilitators with whom country partners can work comfortably.

Attention to contextual drivers of and constraints to CD is a primary task for country partners engaged in promoting CD. Kept in donor hands it is likely to remain an exercise that will tell donors what they should *not* do and what they should *not* expect their partners to do. Useful as that may be, it will not bring a CD agenda much forward.

3.2 Get capacity development ambitions right

Taking context into account implies that country partners, when promoting CD, must *adapt* (ambitions, speed, scope and sequencing) to the systemic/contextual realities, *influence these factors* when possible, and/or *work with stakeholders* (political, economic and religious elites, popular organizations etc.) *to address selected systemic issues directly when feasible.* Context should not be "assumed away", it should be seen as an opportunity and a reality to adapt to.

There are no blueprints that will define a best path way across sectors, countries and situations. They have to be developed, tested and adjusted along the trajectory of CD and change. This is similar to other situations where management and leadership are involved: managers and leaders constantly decide and adjust – and do not act according to predefined blueprints.

Donors can help partners in this process of getting CD ambitions right by staying in the background, being helpful partners in dialogue and provide access to requisite knowledge that can strengthen the country partners' processes. Donors can also broker networks and bring actors together in or across sectors. They cannot, however, convert CD to a process where it ends up being a donor conceived project where all substantial inputs are assumed to come from the donor(s).

Successful CD and reform hinges on a solid and practical ownership by country partners, demanding a corresponding investment of leadership energy, power, political capital and scarce managerial and technical resources (EuropeAid 2009a). Critically, donors must carefully avoid disenfranchising country partners from investing in change by overwhelming them technically, financially or even politically, thereby undermining the ownership.

There is a tendency for aid to put the bar of ambitions for CD too high – expecting comprehensive CD and reform to happen over short time spans. There are strong incentives behind this both among country partners and donors: Reform can be high on the political agendas of both, and politicians want appealing agendas, and short-term results. This tends to push aid agendas – and accompanying CD and reform agendas - upwards in ambition and downwards in time horizon.

In fragile situations and aid dependent countries it may be particularly difficult to "keep the feet on the ground". "Capacity-deficits" may be abundant, service delivery appalling and regulatory efficiency a rather distant dream(International Dialogue on Peacebuilding and Statebuilding 2010; OECD 2010).

Facing the reality of these incentives, country partners and the donors assisting them need to:

- *Dialogue explicitly about CD ambition levels, and set them close to what realistically can be achieved.* The dialogue should be informed by the assessment of the context, stakeholder interests and the capacity to manage CD and change.
- *Include "quick wins" and pitch at the right level.* CD is often dismissed because it is seen as not delivering politically relevant results within a reasonable horizon. Or it is seen as focusing on donor-delivered processes: training courses, workshops, reports etc. Successful, marketable CD has to do better: it has, in relatively short time, to deliver at least slightly better services and products from the organizations it occurs in, and an improved capacity to perform of these organizations (Boesen and Therkildsen 2004; EuropeAid 2005).

Identifying and achieving concrete, tangible quick wins that give stakeholders some sense of progress is obviously not easy in constrained environments. But identifying where small change may have a visible impact – e.g. using IT to transfer salaries to teachers so that they don't have to travel for two days to collect their pay – may make or break the wider CD process.

3.3 Harness the leadership and management for change

Making context matter for CD consistently points to a perspective on CD and change where assessments of existing capacity, standard prescriptions and elaborate logical frameworks play a lesser role. Instead, the emphasis is on scouting the context, identifying those who will press for change and those who will resist it, and managing change as a process of harnessing a coalition strong and persistent enough to see CD or reform through.

Change management continues to include strong attention to good technical design, and to lessons learned about what has worked and not worked in other contexts. But the leadership and management issues related to CD – roles that cannot be delegated to donors or to e.g. technical assistance – need to be the centre of attention from the start if CD is to be successful within the odds set by the context.

This is not a search for leadership despite all constraints, or an inflated expectation that leaders can break deeply engrained patterns of power and behavior at will. They cannot. However, they can go against some of the grain, some of the time. Whether and how far that ends up becoming a new, institutionalized pattern depends on the support they generate and how well they can appease opposition to change.   How well CD adapts to and influences the environment depends on the *change management capacity* that can be made available including, critically, leadership by country actors.

For *country partners*, this means that ownership of CD and reform very concretely is about investment of visible leadership resources – whether it is with the aim of enhancing the capacity of schools to perform in remote rural areas; or with the aim of developing the capacity of an account unit to deliver monthly balances accurately and on time.

For *donors*, this means a better understanding of and respect for the realities – including the political realities – that shape and constrain change readiness in organisations, sectors or countries. Looking for country leadership (and understanding its limitations) is paramount. As important, donors need to abstain from trying to replace this leadership by their own and from behaving in a manner that *de facto* undermines and even de-legitimizes domestic leadership, e.g. through donor-driven parallel units or projects that are broadcasted as donor projects rather than domestic projects.

This creates dilemmas and tensions for donors and partners alike – between short and long term goals, between the distribution of control, power and authority in the aid relationships, between donor field staff and headquarters, between civil servants and their political masters, between discourse and realities on the ground.

For both country partners and donors, the first helpful thing they can do is to talk about these matters. It will lead to more modest, but eventually more ambitious approach to CD that patiently delivers a more dynamic fit to context, influencing it when possible and adapting to it, as needed.

Section 4. Messages for Busan

Country and donor actors can do better for CD when they understand the context and how it influences performance and capacity development. Successful country managers – and successful donor staff - influence what is within their reach and adapt to what they cannot influence. That implies sometimes doing less, sometimes doing more for CD. First of all, it demands a *more managerial, strategic and dynamic look at capacity development and change*, requiring that country and development partners change the mental mode in which they traditionally dialogue about and deal with capacity issues as if it was mainly a technical issue.

This Perspectives Note highlighted three key messages that will help strengthen CD processes and support to such processes:

- *Make the understanding of the context operationally relevant.* This entail getting roles right: country actors need to factor the context in, departing from a specific CD agenda and respecting the sensitivities involved. Donors can support and broker context analysis and CD strategizing – if they take it over it is likely to stay at the margins, no matter how well researched and argued.

- *Get CD ambitions right.* Successful CD depends on the change readiness shaped by the context, the vision and the capacity and power of those leading and managing change. This may often imply more incremental approaches, a focus on quick visible wins, longer overall timeframes, as well as flexible adaptation to exploit opportunities and avoid dead ends.

- *Harness the leadership and management for change.* Country champions need to invest visibly in CD. They need space, capacity and support when they adapt to and influence the context. Donors need to understand the limitations of the change leadership and management capacity, and abstain from trying to replace endogenous leadership with their own.

Taking the context into account implies recognizing – operationally - that CD is much more than a technical discipline. It affects interests, reshapes configurations of influence and power, and generates or diminishes energies of external and internal stakeholders. Successful CD requires constant strategizing, brokering, coalition building and conflict management. Dealing sensibly and pragmatically with these often thorny issues is a new challenge that in itself has to be addressed:

- *Open the dialogue and learning between country and development partners:* A more frank and unpretentious dialogue about context factors, stakeholder and change readiness can help get CD and support to CD on a better footing on the road to and after Busan.

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