

Capacity Enhancement

BRIEFS

SHARING BEST PRACTICES AND LESSONS LEARNED

NURTURING CAPACITY IN DEVELOPING COUNTRIES From Consensus to Practice

Govindan G. Nair, Lead Economist, The World Bank Institute

There is an emerging consensus that capacity building in developing countries must shift from supply-side, donor-driven to demand-led approaches. Three areas in which this is critical are evaluation capacity, the availability of skilled individuals, and aid management.

An effective demand-led approach requires fostering a transparent evaluation culture, focused on poverty impacts and involving participatory approaches. The approach to skilled resources must move from skills acquisition to the retention and use of skills, using the resources of the diaspora, tackling incentives and addressing issues that discourage retention of skills. Recipient countries need to be placed in the "driver's seat" to manage and coordinate external assistance. There is no single clear path to achievement of these goals. With vigorous political commitment and conducive recipient country circumstances it can take time, and even significant institutional capacity will wither if the governance environment is weak.

Prevailing development rhetoric exhorts aid agencies and recipient countries to reorient development practices around a new concept of capacity. A significant literature has emerged on this distinct idea,¹ broadly articulated as the abilities of individuals, institutions, and societies to perform functions, solve problems, as well as set and achieve a country's development goals in an effective, participatory, and sustainable manner.² Breaking with past practices to translate its elements into effective new development practice remains an ongoing challenge for governments, civil society organizations, development agencies, and training institutions. This is increasingly acknowledged in recent international fora.³

This paper seeks to clarify the dynamics of this overall challenge by unbundling it within a framework of distinct demand- and supply-side factors. To set the challenge of nurturing capacity in context and distinguish it from a broader set of development challenges, the paper reviews the underpinnings of an emerging global consensus on capacity.

Emerging Global Consensus on Capacity for Development

Capacity can be distinguished from related concepts, such as institution building and technical assistance, by considering its origins in three related developments in the 1990s:

- *Perception of traditional technical assistance falling short of expectations*, despite some clear achievements, leading to a consensus that technical assistance has tended to transfer skills and know-how without significantly tapping local expertise and institutions and creating enduring capacity.
- *Increasing influence of institutional economics within development thinking* and recognition that neither good policies nor good investments are likely to emerge and be sustainable with dysfunctional institutions and poor governance.⁴

Research has suggested that institutional factors and capacity building can explain growth differentials across countries not attributable to classi-



cal variables such as capital accumulation, technical progress, and increases in labor.⁵

- *Emergence of comprehensive approaches to development* encompassing not only macroeconomic and structural reforms, but institutional, social, and process issues. Originating in 1999, the “comprehensive development framework” was later embodied in the poverty reduction strategy paper (PRSP) and followed in 2000 by the Millennium Development Goals; these frameworks collectively emphasize how critical it is for individuals, organizations, and institutions in developing countries to embed capacities to formulate and “own” local and national development goals and processes within a country-driven strategy focused on achieving clear, monitorable targets and outcomes.

The global development community has reached broad consensus on how development assistance can most effectively increase capacity, encapsulated in three strands of positive and normative concepts:

- skills become embedded in *organizations* and *individuals*, but *institutional incentives* (“rules of the game”) shape utilization and retention of skills and determine scalability and sustainability of efforts to nurture capacity nationwide. All three levels of capacity should be considered jointly in designing capacity-support interventions.
- supply-driven approaches—often a modus operandi among donor agencies—cannot sustainably nurture capacity and must give way to approaches owned by the recipient country and based on broad local participation.
- Design of interventions to nurture capacity must be results oriented and focus on “capacity for what and whom” for national capacity to contribute to development. Capacity also takes time to nurture, usually emerging in the medium term.⁶

By emphasizing demand-led approaches to nurturing capacity, this consensus also underscores the prime importance of transformational processes within recipient countries: giving voice to various local stakeholders, creating transparent governance, and developing a culture of evidence-based policy formulation and execution. Donor practices can, at best, facilitate and, at worst, hamper the emergence of national capacity.

From Consensus to Practice: Demand-Side Challenges

Three issues illustrate how translating new concepts of capacity into practice requires going well beyond what

was previously often regarded by donors and recipient countries as largely technical issues of training and transferring skills, and strengthening particular organizations:

- The demand-led approach to nurturing capacity shifts the focus of evaluation capacity from simply building monitoring and evaluation (M & E) skills on recording inputs, activities, or immediate outputs to fostering a transparent evaluation culture focused on poverty outcomes, impacts, and goals and on participatory approaches—including citizen rights to demand results and government’s ability to respond. Capacity to generate and use high-quality and timely data, although critical, does not in itself ensure impact on development results. Recent literature on evaluation capacity building emphasizes this demand-led approach. Uganda’s experience on internalizing the approach within its PRSP is illustrative.⁷ No easy route exists to strengthening a government’s performance culture and thus its demand for M&E, although internal and external accountability pressures are important.
- Demand-led approaches to nurturing capacity emphasize *skill retention and utilization*, not simply acquisition. Some countries, such as El Salvador, which emerged from extended civil strife in the early 1990s, and Armenia have succeeded in tapping their diaspora as part of a national portfolio of knowledge and financial assets. Other countries face serious impediments to long-term capacity building with growing emigration of scarce skilled nationals.⁸ Long-term capacity-building efforts must consider incentive structures for skill retention and their impact; otherwise, further efforts at acquiring skills may have little or no sustainable impact. Rights to participate effectively in civic, political, and economic life may provide nonmonetary incentives for skilled nationals to stay in, not flee, the home country.
- Putting the recipient country in the “driver’s seat” to *manage and coordinate external assistance* is intrinsic to country-owned development strategies, but not a straightforward shift. It requires, on the demand side, country leadership and aid management capacity—including the ability to refuse aid or projects deemed irrelevant or even detrimental—and greater demands on staff and institutional capacities of recipient countries. Examples of important shifts toward country-led partnerships with donors include Vietnam’s recent legal system reforms, with



assistance from more than thirty international donors; Ghana's health sector-wide approach, which brought government and donors together in annual review exercises; and Tanzania's experiment with independent monitoring and evaluation of donor and country performance.

From Consensus to Practice: Supply-Side Challenge

On the supply side, capacity is nurtured by the portfolio of human, institutional, financial, and physical assets of a country, including its nonresident nationals, and can be positively or negatively influenced by donor practices, as illustrated by the same issues as above:

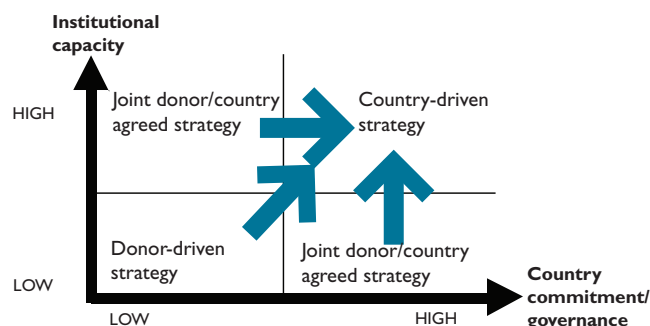
- Donor support to nurturing evaluation capacity has historically focused heavily on donor needs to track disbursements and outputs of donor-funded projects, rather than building overall national evaluation capacity.
- Practices relying on international technical assistance and project implementation units have historically undercut *utilization and retention of national skills*.
- Findings of OECD's Development Assistance Committee⁹ suggest that donor practices and procedures represent significant obstacles to nurturing recipient country capacity for leading and managing aid partnerships. Recent donor harmonization efforts to reduce transaction costs and administrative burdens on recipient countries indicate progress, but actual implementation at country levels is highly uneven and infrequent.

These and other donor-driven practices may also depend on demand-side shifts as well as creation of national capacity to manage aid programs on a programmatic, rather than project, basis.

Managing the Shift: A Clearer Destination with Diverse Pathways

The emerging global consensus on capacity does not suggest a clear or single path for how national institutions and capabilities and country-specific donor assistance should evolve to achieve these goals. Political, not simply technical, processes will determine specific pathways of interaction between demand and supply sides of nurturing capacity. Particularly important is how asymmetric power relationships within recipient countries and between them and donor agencies are mediated to align better with a broadly based, country-owned, and results-oriented strategy of nurturing capacity to achieve development results.¹⁰ Where governance is weak or institutional

capacity is inadequate, development partnerships may require joint strategies with donors rather than being fully country led. Inadequate governance due to civil strife or fragile accountability structures, and weak institutional capacity among national and subnational service providers may mean continuing domination of donor-driven strategies (see diagram).



The magnitude of demand-side shifts implied by a country-driven process of nurturing capacity cannot be underestimated. Even with vigorous political commitment and conducive recipient-country circumstances, transformational processes, especially the building of sound institutions, can take time—from several years to a decade or more. Even significant institutional capacity will wither under weak governance. Nurturing capacity across multiple areas (including sector-specific areas not illustrated above) can help move a country toward full ownership of its development strategy; the necessary shifts on demand and supply sides will emerge, more often than not, incrementally and interactively.

Peer Reviewers: Michael Sarris, Director, Regional Capacity Enhancement Team (RCET), and Mei Wang, Sr. Economist, Operations Policy and Country Services (OPCS)

References

- Amis, P. and L. Green. 2002. *Survey on Partners' Priorities, and Perspectives on Harmonizing Donor Practices*. Birmingham, U.K.: University of Birmingham.
- Hauge, Arild. 2001. *Strengthening Capacity for Monitoring and Evaluation in Uganda: A Results-Based Management Perspective*. ECD Working Paper Series No. 8. Operations Evaluation Department. Washington, D.C.: World Bank.
- International Labour Organization (ILO). 2001. *Migration of Highly Skilled Persons from Developing Countries: Impact and Policy Responses*. Geneva.
- Rodrik, Dani. 1997. *TFPG Controversies, Institutions, and Economic Performance in East Asia*. National Bureau of Economic Research Working Paper No. 5914. Cambridge, Mass.: NBER.

Schacter, Mark. 2000. "Capacity Building": A New Way of Doing Business for Development Assistance Organizations. Policy Brief No. 6 (January). Ottawa: Institute on Policy Governance. <<http://www.iog.ca/publications/policybrief6.pdf>>.

World Bank. 2000a. *CDF Framework Mid-Term Progress Report*. Washington, D.C.

———. 2000b. *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy*. Public Sector Group, Poverty Reduction and Economic Management (PREM) Network. Washington, D.C.

———. 2002. *Annual Report on Capacity Evaluation Development*. Operations Evaluation Department. Washington, D.C.

———. 2003. *Toward Country-Led Development: A Multi-Partner Evaluation of the Comprehensive Development Framework*. Operations Evaluation Department, Washington, D.C. <http://www.worldbank.org/evaluation/cdf/cdf_evaluation.pdf>.

World Bank and International Monetary Fund. 2000. *World Bank/IMF PRSP Progress Report*. Washington, D.C.

———. 2002. *The Progress Report on Implementing the Monterrey Consensus*. Washington, D.C.

1. See, for example, Schacter (2000).

2. Broadly similar to definitions developed and used by several agencies, notably the United Nations Development Programme. Documents explicitly referring to the key role of capacity include World Bank and IMF (2000 and 2002) and World Bank (2000a).

3. This paper draws especially on recent global fora cosponsored by the World Bank Institute and other partners in Manila (January 2003) and Berlin (March 2003). See <<http://www.undp.org/capacity/symposium/>> and <http://www.worldbank.org/wbi/RCET/berlin_workshop/>.

4. See World Bank (2000b).

5. See, for example, Rodrik (1997).

6. Despite widespread acceptance that results and outcomes are important, the approach has its critics. See World Bank (2003).

7. See World Bank (2002) for discussion of evaluation capacity development as a systemic approach to improving country institutions concerned with M&E and reform of public sector activities and programs. On Uganda, see Hauge (2001).

8. Examples of literature on the multiple impacts of skilled emigration include ILO (2001).

9. See Amis and Green (2002).

10. For further discussion on power asymmetries, see World Bank (2003).

About World Bank Institute (WBI): Unleashing the Power of Knowledge to Enable a World Free of Poverty

WBI helps people, institutions, and countries to diagnose problems that keep communities poor, to make informed choices to solve those problems, and to share what they learn with others. Through traditional and distance learning methods, WBI and its partners in many countries deliver knowledge-based options to policymakers, technical experts, business and community leaders, and civil society stakeholders; fostering analytical and networking skills to help them make sound decisions, design effective socioeconomic policies and programs, and unleash the productive potential of their societies.

WBI Contacts:

David Potten, Lead Specialist, Country Programs
Tel: 202-458-7873, Email: dpotten@worldbank.org

Intiazuddin Ahmad, Sr. Operations Officer
Tel: 202-458-1878, E-mail: lahmad2@worldbank.org

Visit our website for more information and download the electronic copies of all Capacity Enhancement Briefs:
<http://www.worldbank.org/capacity>

