PRACTICE NOTE

CAPACITY DEVELOPMENT DURING PERIODS OF TRANSITION

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CONTENTS

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
CAP2015	Capacity 2015
DFID	Department for International Development (UK)
ECDPM	European Centre for Development Policy Management
FAO	Food and Agriculture Organization
GEF	Global Environment Facility
ILO	International Labour Organization
JCGP	Joint Consultative Group on Policy
LENCD	Learning Network on Capacity Development
NORAD	Norwegian Agency for Development Cooperation
OECD	Organization for Economic Cooperation and Development
OSI	Open Society Institute
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNEVOC	United Nations International Centre for Technical and Vocational Education and Training
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WBI	World Bank Institute

EXECUTIVE SUMMARY

Transition processes, be they driven by politics, social change or economics, are heterogeneous, and different countries face diverse challenges during and in the immediate aftermath of transitions. We explore the concept 'transition' and how strategic capacity development (CD) interventions can play a utilitarian role in cementing a positive societal shift in two distinct phases, namely; non-crisis transitions and crisis/post-conflict transitions associated with peace building and reconstruction.

Capacity assets, gaps and priorities vary greatly across countries or even in the same country over time. However, past experiences and lessons from both developing countries and international partners point to a set of core issues specific to the capacities essential to manage and move societies through difficult periods in their history. CD is seen as a long term goal, but one for which investments and planning must begin at the very beginning, for both short term and longer term capacity gains to take root. The popular statements that CD can only be achieved over the long term or CD strategies need only be focused on once other short term needs are met are questioned.

In many respects transitions represent a window of opportunity for important transformations, with considerable need for the reform and scaling up of societal, organizational and individual capacities to accompany the political, economic, legislative and service delivery imperatives the country faces at such a time. However, the endogenous capacities to meet such demands are often destabilized, weakened or chased away during the preceding period of crisis. Countries, therefore, face significant capacity challenges and absorption constraints in the aftermath of crises.

The paper looks at evidence on both peaceful and crisis-driven transitions, encompassing both economic and political change, and identifies the emerging demands and development priorities from a CD lens.[1] In post conflict situations, which could include some of the same sets of CD needs and strategies, it speaks to differences in emphases and sequencing of CD strategies for the re-establishing of basic security, access to justice and the foundations for state building and peace-time governance that allow for a country to begin the difficult period of reconciliation and reconstruction.[2]

Second, it draws from the evidence available from actual country applications (albeit somewhat anecdotal), in an attempt to identify and synthesize a set of common lessons and practices in the application of capacity development responses in transition situations.

This Note, which provides the overall framework and cross cutting CD strategies and issues, does not cover in detail the recognized and recommended CD strategies in sub areas of post conflict response. These will be provided in subsequent papers at the thematic level (e.g., Mine Action, Rule of Law/Justice and Security Sector Reform; Economic Governance in post conflict situations, and Natural Disaster Risk Reduction).

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[1] For those transitions from state-planned economy to more open economies, the paper takes from the experiences primarily of the Europe and the CIS region. For post-conflict or post-crisis situations, lessons are drawn from elsewhere as well, in order to learn from common themes and approaches.

[2] Security and development have become increasingly connected, as more on these aspects can be found in the UN Secretary-General reports *In Larger Freedom: Towards Development, Security and Human Rights for All* (UN, 2005) and in the 2004 report on the High-Level Panel on Threats, Challenges and Change, *A More Secure World: Our Shared Responsibility* (HLP, 2004).

SECTION I.
CAPACITY DEVELOPMENT IN TRANSITIONS: OPPORTUNITIES AND CHALLENGES

We define transition broadly as periods of multidimensional economic, political and/or societal change arising from a transfer of power or a period of conflict. In the real world, transitions are often a mix of political and economic factors, not clearly separated or differentiated. The initiating factors for a given transition can be often led by the state, its citizenry, or the international community. This Practice Note proposes guiding principles for capacity development strategies in a transition context, and proposes to expand the toolkit of capacity support activities for development practitioners.

Opportunities
This Practice Note makes the case for ensuring short and medium-term capacity development investments in post conflict and transition response strategies, and to integrate them into longer-term development strategies. The possibilities for using change in a country's political and economic landscape to promote political and developmental progress, and hence investing in the relevant capacities to make such happen, are dependant on recognizing and capitalizing on windows of opportunity. These can often be short lived. What have we learnt?

o Transitions can present an opportunity for important structural reforms, in particular a chance to scale up legislative and institutional reforms and service delivery.
o Transitions often benefit from a sudden and ephemeral infusion of considerable donor resources.
o In weakened states emerging from conflict, timely and carefully targeted capacity development programmes can make a difference between sliding back into turmoil or moving towards strengthening the foundations of the State.
o Transitions are not homogenous. Governments that take power with reformist mandates usually face daunting challenges. Whether as the result of: an election reversal, as in the case of Serbia and Montenegro; an internationally brokered peace settlement, as in the case of Afghanistan, Sierra Leone or Liberia; a popular upheaval leading to a peaceful regime change, as in the case of Georgia; or in 'new' countries with transitional administrations such as in Kosovo and Timor-Leste, there will be an opportunity to engage with national stakeholders on consolidating new gains, by concentrating capacity development where it counts.
o Transitions provide an opportunity to enhance human rights and establish a social contract that rests on the rule of law, justice and security.
o Transition is a critical moment to reassess gender roles and capacities, and to take concrete steps towards strengthening women's empowerment and gender equality.

Challenges
Despite high expectations on the part of both national and international stakeholders, and the spike in external resource flows that usually accompanies a window of reform, the

challenges facing capacity development are often significant.**3** These challenges can also be present in many different combinations, thus precluding a one-size-fits-all approach to reforms and changes in state structures. What have we learnt?

o   Planning in transition situations must factor in a degree of uneven progress, as well as the possibility that things can get worse before they get better.[4] Capacity needs and priorities will be very different for different countries, and across time and geography for the same countries. And while capacity demands are likely to be great, available resources and national absorption capacity may vary greatly.

o   In the transitional periods experienced in countries such as the former Soviet Republics, while implementing reform and delivering on extremely high expectations, the states were forced, at least in the early days, to work with weakened state structures corroded by corruption, cronyism, and a bureaucratic culture of inertia or compliance with the old way of doing things.

o   During transition phases, there are periods of uncertainty and instability following changes in leadership, inevitably creating "winners" and "losers". This in certain cases results in emigration and a significant brain drain, further undermining available capacities.

o   Reduced government ownership and a lack of state-citizen accountability are additional challenges commonly faced in times of political transition, as interest groups tend to form to protect narrow interests.

o   State structures in certain types of political transitions are characterized by an excessive centralization as remnant of the previous political order - such as one-party rule - which can result in very limited financial authority for local governments. Moreover, formerly centrally-planned economies are closed to outside markets and do not have the allocative efficiency of market economies, posing a significant obstacle for their economic development.

o   Within inherited political and economic systems, politicized and parallel bureaucracies can often be an additional feature of the State. In the course of planning state reforms, the system can suffer from political infighting and a lack of shared national vision for the long-term direction of the society and the State. This in turn can result in a lack of consensus on various priority reform policies such as privatization, economic development, decentralization of institutional reforms, and regional integration (case of integration of Eastern European countries into the EU).

o   The civil service in countries undergoing transition can be of limited functionality and governed by clientalism. The incentive system may be inadequate or even counter-productive. Human resource management may also be very limited in such cases. A mismatch between skill and responsibility is a common feature.

o   Ministries and other administrative units undergoing transition can lack clear and effective mechanisms of communication and coordination, leading to overlapping functions and uncoordinated sector polices. The public service may also be weakened

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[3] The paper, Capacity Development Strategies for Managing Political Transitions, Boutellis, 2006, provides background and case study synthesis.
[4] In economic studies of transition, this is known as J-curve phenomenon, with the J-curve depicting the decline in GDP and output with subsequent recovery. (Haggard and Kaufman, 1995, The Political Economy of Democratic Transitions.)

as a result of the transition upheaval, and unable to respond effectively to citizens' needs.

o Transparency and accountability mechanisms in areas of public service delivery and state protection are often serious deficiencies.

o Capacity development efforts in transitional situations can be ephemeral. The sustainability of transition efforts and building the necessary capacities at the country level are thus critical concerns.

Challenges and opportunities related to capacity development in transitions are amplified in the context of countries emerging from violent conflict. The stakes of successful transitions are usually very high, and the cost of failure is all too often a relapse to violent conflict, prolonged periods of non-peace/non-war, or the establishment of a new State built on weak foundations of participation, accountability and legitimacy. What does the evidence often show in such transition contexts?

o In post-conflict situations, targeted capacity development that takes account of war-time conflict dynamics and aims to *transform* rather than just rebuild is crucial for sustainable peace building.

o Ideological, ethnic, religious, or other sociopolitical divisions may have been at the heart of a conflict, posing complex challenges of social cohesion and governance. Remedies to some of these structural (or 'root') causes may be negotiated into a peace agreement in the form of power-sharing or other arrangements with important implications for capacity development, but these remedies may also contain the seeds of further conflict and/or administrative inefficiency if not managed carefully. Disempowered groups must be brought back into the political process, and both "winners" and "losers" have to be capacitated to engage.

o Transitions are not linear processes and do not fall into chronologically distinct periods. This is even more pronounced during volatile transition periods associated with peace-building and reconstruction.[5]

o The political process is often not genuinely pluralist, hampering reform of political participation. In post-conflict countries, whole groups may have been excluded from political access to the state, and may have developed militarized forms of political mobilization.

o A key challenge is how to identify and target the appropriate capacity development response to the most critical sectors and functions, engaging key national actors in a transition process that will address structural causes of conflict in a timely and effective manner.

o Early recovery in post-conflict transitions poses special capacity challenges as it often requires simultaneous support to ensure security, protect and address the needs and rights of victims and vulnerable groups such as IDPs and women, strengthen the rule of law and access to justice and deliver quick results to demonstrate the "peace dividend". This requires careful support strategies to define priorities, strategic allocation of international capacities, and well thought-through phased approaches.

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[5] A good synopsis of the nature of transitions from a post-conflict perspective is provided in the workshop report on 'Rebuilding Post-Conflict Societies: Lessons from a Decade of Global Experience', World Bank-UNDP, Sept 2005.

o In the longer term, a transition must concern itself with (re)building a peaceful democracy. Sustainable institutional development will require addressing the middle and junior level gaps found in many state institutions, as well as the centre-periphery inequities that characterize many post-conflict contexts.

o Assuring the empowerment of women as dynamic participants in transition, strengthening women's security and gender justice, opening new space for women's leadership roles, and transforming government to deliver for women, should all form integral parts of capacity development strategies.

Using Post Conflict Needs Assessments (PCNA)[6]:

UNDG and the World Bank provide a useful set of tools (PCNA and Transitional Results Matrix) to re-establish the basis for international engagement around national priorities in the early post-conflict period and for prioritizing around the different challenges posed by complex transition settings.[1] The guidelines provide for assessing needs, and planning and prioritizing national and international responses to ensure successful transitions. From a capacity development perspective, the up-coming revisions to these instruments will provide specific guidance on the conduct of capacity assessments to feed into the formulation and costing of capacity development strategies as an integral part of the results matrix guiding the national/international response.

WFP uses Vulnerability Mapping to assess the immediate and urgent needs of those communities who are working themselves out of crisis situations into managing a return to more stable living conditions.[7]

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[6] UNDG/World Bank An Operational Note on Transitional Results Matrices, 2005; and UNDG/UNDP/World Bank *PCNA - Practical Guide to Multilateral Needs Assessments in Post-Conflict situations,* August 2004. Available at www.undg.org/post-crisis transition/post-conflict needs assessments/PCNA Reviews and Guidance
[7] Refer WFP website for details on tool and its applications www.wfp.org

SECTION II.
PRIORITY AREAS FOR CAPACITY DEVELOPMENT DURING TRANSITION

A. State-building as a pre-requisite for the effective management of transitions[8]

Although no clear-cut definition has been developed, it is generally agreed that a state-building perspective focuses on how to rebuild more effective, responsive, and accountable state institutions. This is vital in transitions, where a state's inability to deliver on core functions (such as provision of justice, security, or social services) can undermine its credibility and support among citizens and put peace consolidation at risk.

In post-conflict transitions, a dilemma can be caused between the politics of peace and the politics of reform, wherein the two can be perceived to be in contradiction. A bloated civil service may be as much a legacy of pre-war dysfunction as a short-term requirement for post-war stability, particularly when unemployment rates are high and/or a negotiated peace agreement calls for specific power sharing arrangements, integration of ex-combatants into the armed forces, and so on. While reform may be essential to rebuilding state legitimacy and effectiveness – notably in areas prone to corruption and nepotism – reform pursued too rapidly or in isolation of the conflict risk dynamics will not yield sustainable results and may, in fact, precipitate a return to conflict. Trade-offs, sequencing, and careful negotiations between national and international actors with regard to economic and administrative reform are vital to maintaining stability, and 'deals' made in the early stages of post-war stabilization must eventually be accompanied by deeper reform to correct possible distortionary effects in the medium to long term.

A state-building perspective can add value to capacity development efforts at different levels. At the macro level, it can facilitate the prioritization and sequencing of capacity development activities by providing a comprehensive view of the core state functions to be (re)established.

New methodologies: the Practical Guide for Post-Conflict Needs Assessments, for example, highlights a wide range of state functions that merit special consideration. Such lists should not be perceived as prescriptive, but can serve as a useful exercise when prioritizing capacity development efforts.

At the country level, a state-building perspective can also help to answer a basic question: capacity for *what*?

Enhancing accountability: Recovery processes in transitions go to the heart of political power and resource distribution in a society. The national leadership will in many post-conflict situations be appointed (often as part of a power-sharing agreement) rather than elected. State-building is about "building back better" in these situations, rather than reinstating old systems and institutions that might have been part of the problem. In other words, enhancing accountability becomes a key orientation for capacity development

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[8] See also the Policy Note on Capacity Building for Reform in Periods of Transition, UNDP, 2005, RBEC/BDP.

efforts. This includes both *horizontal* and *vertical* relationships of accountability across society that will be critical to stabilize a post-conflict country. Horizontal accountability involves checks and balances such as oversight institutions, watchdogs, independent media and an active civil society. Vertical accountability involves relationships between communities and government, where the strengthening of local capacities has proven to be an effective way to promote greater accountability.

National actors: Any efforts to build greater accountability capacities in post-conflict transitions must, however, be based on careful conflict analysis to ensure a conflict-sensitive approach. This is necessary to identify and support change agents among the national partners and prioritize capacity development efforts such that no single conflict actor is particularly advantaged or disadvantaged. At the same time, post-conflict situations may also offer a turning point – in the form of a peace agreement, new constitution or 'national consensus' – when countries or national leaderships may agree on the revision or reform of state structures.

At the project level, a state-building perspective can provide guidance on *how* to design certain capacity development efforts. Some examples are:

- Service delivery: In a post-conflict setting the resumption of basic services can be a cornerstone of a peace building strategy. Transitional administrations can convince populations of the legitimacy of state institutions by fostering relationships of accountability between service providers, citizens and the state. However, in post-conflict settings non-state providers provide most services and the challenge for donors and the state is to meet the immediate needs of the people in a way that begins to re-build the fundamental accountability relationships between state and citizens on which sustained peace must rest. While parallel service delivery channels may initially be necessary, particularly to meet immediate needs, this may detract from state capacity in the longer run, especially where there is no obvious exit strategy for international or non-state providers. Service contracts between donors and contractors/NGOs are a possible vehicle for explicit transition timelines if they are structured around an agreed set of milestones.[9]

- Budgeting: Multi-year planning and budgeting frameworks offer countries the tools to enhance predictability, transparency and accountability in the state's operations as well as driving effective government. Assistance channels that bypass the budget can enhance speed of response and manage high fiduciary risk, but if sustained, such channels undermine national ownership and relevance of the budget function as government's policy-making tool and reduce the incentive for good coordination between line ministries and the ministry of finance, between donor programs and between donors and government. In addition, the potential value of the national budget as a conflict resolution tool should be noted. An example is Afghanistan, where the cabinet faced difficult trade-offs, but was often able to address them in a constructive way through the budget discussions.

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[9] OECD DAC Synthesis Paper for the Service Delivery Workstream, by Steve Commins.

- Transfer of knowledge: 'Contracting-in' capacity to support critical government functions, such as procurement, audit and financial management, monitoring and evaluation mechanisms, can be an effective tool. However, a key challenge has been to ensure effective transfer of knowledge and responsibilities from internationals to counterparts. While such transfers are difficult to measure, it is advisable to write the responsibility explicitly into the TORs and ensure a more transparent discussion about these issues.

B. *Public Administration Reform as transformational*

Reforming public administration is not a purely technical issue; it depends on the unwavering commitment of political leadership to effect change in the face of almost certain opposition. Reform can fall victim to profoundly conflicting views and approaches, and can represent a major challenge to established vested interests. The costs are traditionally borne at the beginning of the reform process while the benefits only become apparent towards the end, long after the politicians who started the process have left office. Therefore, early victories are necessary in order to garner the required support for the ensuing more critical reforms.

States affected by conflict may face structural weaknesses that render them unable to deliver on core responsibilities including the provision of security throughout the territory, economic and social stability, rule of law, and basic social services. At a more instrumental level, states can be faced with the human dimension of a weakened public administration (poorly qualified, badly paid civil servants who are inefficiently allocated), and an ambiguous institutional landscape (institutions with unclear and overlapping mandates, opaque bureaucracy and poorly understood processes, and inadequate oversight mechanisms). But even in such extreme cases, successful public administration reform is possible (see case of Angola, **box 1**).

Box 1: Public Administration Reform experience in Angola

In the reconstruction phase of a transition state, there are often innovative opportunities for civil service reforms which are absent or impossible in a more established bureaucracy. In the aftermath of the Angolan conflict, it was imperative for public administration to effectively and legitimately address the needs of the Angolan population through the provision of basic services.

The Programa de reforma Institucional e Moderniza o Administrativa (PRIMA) set the agenda for census of civil servants and reclassification of posts, as well as the introduction of modern human resource management systems to create incentives to recruit qualified people.

Programa de Reforma Administritiva (PREA) in turn strived to downsize the civil service. As a result, 8000 civil servants accepted early retirement packages. Attempts were made to raise pay levels of existing employees to prevent corruption, and to strengthen coordination and the institutional capacity of the public administration. PREA also worked on the modernization of fiscal administration at the local level, and re-engineered service delivery systems to facilitate civil society participation in the development process.[10]

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[10] Source: "Governance and PAR and Innovations in African Countries: A Focus on Achievements, Setbacks and Future Directions" (Regional Forum on Reinventing Governments in Africa, 2005); "Supporting Africa's Efforts to Achieve Sustainable Development: Dialogues at the Economic and Social

C. National salary reform and related issues

States emerging from periods of upheaval are typically unable to afford adequate salaries for civil servants, rendering government institutions unable to compete with other sectors (or with the lure of work abroad) in attracting skilled professionals. Low compensation is also a potent impulse to corruption, particularly in highly regulated economies, where numerous permits and licenses are required to conduct business. Without the attraction of suitable salaries, reformist governments are left to appeal to altruism, idealism, and patriotism to lure talented professionals into public service. In war-torn societies, the need to quickly reconstruct the symbols and functions of the state is usually under-written by the international community. The byproduct of such intervention is often an inflation of salaries, entitlements, and responsibilities, usually in the immediate aftermath of a peace accord. Salaries are sharply augmented for most functions, from drivers to the university-trained technical experts. In an effort to remedy this situation, and to enable reformist governments to secure the human capital they urgently need to design and enact reforms quickly, transitional salary supplements for key officials are often deemed necessary. Recently, a number of countries have begun exploring different versions of government-led salary supplementation schemes for civil servants. These are providing important lessons, for national and international engagement on incentive mechanisms as a corollary to attracting and retaining public administration capacities in-country.

Lessons learnt on National Salary Supplementation Schemes (NSSS):

- Any form of NSSS should ideally be led and managed by governments, and be strategically applied (as in Tanzania) and not across-the-board (**box 2**)

- Such schemes should not be stand-alone, but be explicitly linked to a national reform agenda, and to specific programmes within that agenda (as in Cambodia[11] and Georgia[12]). This , in turn, will be an initial step towards a negotiated national salary reform and a wage bill that is eventually reviewed by policy makers (**box 6**)

- Salary supplements should be linked to the function rather than the person (as in Serbia[13]). Linking the supplement to a designated function ensures its strategic focus, increases transparency and impartiality in the appointment, and makes the application of performance criteria easier.

Council" (ECOSOC 2002); "Governance and PAR and Innovations in African Countries: A Focus on Achievements, Setbacks and Future Directions" (Regional Forum on Reinventing Governments in Africa, 2005); Tenente, Malaquias.

[11] In Cambodia, Priority Mission Groups (PMGs) of selected civil servants are provided with up to three times their usual pay to spearhead reforms, including a Merit Based Pay Initiative, which itself supports further reform. The PMG supplements are provided for 12 to 18 months, based on specified outputs, ethics, and performance.

[12] In Georgia incentives were put in place for more effective tax collection to replace salary top-ups as they would end within a specific time frame.

[13] In Serbia, salary supplements were provided to attract new entrants into the civil service, especially from the Diaspora, and were provided through a Capacity Development Fund that also provided a range of longer term capacity development measures. These cases are providing important lessons. In Serbia lack of an agreed administrative reform programme led to ad hoc and un-strategic salary supplements, underscoring the need for a link between salary supplements and a reform programme.

- Salary supplements should be closely linked to performance with indicators that are easy to monitor and that are linked to specific outputs and measurable results.

- Supplements should be of limited duration (as in Georgia), designed to be moved into the national wage bill under standard operating procedures for government salary payment through the regular national budget process.

- Salary supplements should not be debt funded. In making the case for supporting such supplement schemes, it is necessary to look at opportunity costs, i.e. what else could the state and donors be doing with such resources during a period of transition that may yield a higher return.

- Where possible, a capacity development strategy would not rely or focus on monetary incentives alone, for the deepening and retention of capacities. A national SSS would be applied together with non monetary incentives, such as training, short term fellowships, learning exchanges, introduction of a merit based recruitment system, transparent performance management systems and so on.

- Where there is a functioning state apparatus, national contracts managed by given state authorities should be used for the provision of the salary supplement.

- Where there are multiple donors involved, lack of uniformity on SSS guidelines makes it difficult to implement. A common set of guidelines must apply, in discussion and agreement with the government and donors involved.

Box 2: Tanzania and selectively applied salary enhancement

In Tanzania, the Selectively Applied Salary Enhancement (SASE) scheme was predicated on a pay reform that saw salaries rise for civil servants in general, increasing gradually over a five year period, and paid for by savings and economic growth. The salaries for individuals selected for their importance to the reform process were set at their post-reform levels at the outset of the scheme, funded through donor budget support. The supplement was dependent on annual performance, and was effectively phased out as salaries of other civil servants caught up under the pay reform. However, the government was slow to implement the pay reform on which the SASE was predicated, and donors tended to 'projectize' their support, i.e. link funds to specific salary supplements. This experience demonstrated that salary supplementation schemes that were politically viable and supported (enjoying sustained political will) could benefit from being realistic in their time horizons. This could in turn encourage donors to make good on their commitments (in the Tanzania case, a separate fund was administered by the government, which made it less prone to earmarking than direct budget support).

One of the major challenges that countries in transition often face is that of a dual salary structure – national salary structures and donor-driven salary structures in project implementation. In transition situations, there is competition for qualified human resources, where demand largely exceeds supply. The excess of demand over supply drives up salary and remuneration levels and causes inconsistencies between wages paid in government and in donor-funded government programmes. This creates a distortion in

the salary structure. Both Afghanistan and Cambodia have addressed this issue in an effort to retain capacities in their own public administration systems (see cases of Afghanistan and Cambodia in **box 3**).

Box 3:   Addressing donor-induced distortion in national salary structures:

<u>Cambodia</u>

In an attempt to correct the problem of donor-driven salary schemes for project implementation, Cambodia has embarked on a number of far-reaching reforms. The government's Rectangular Strategy calls for a 10-15% per annum increase in civil service pay. Also, its "priority Mission group" scheme is a flexible tool at the disposal of ministries to rapidly increase their capacity to implement priority missions focused on service delivery bottlenecks or other strategic tasks. Under this scheme, selected teams of qualified civil servants receive an adequate remuneration (special monthly allowance ranging from 48 US$ to 130 US$) in return for good performance and adherence to a strict code of ethics as set out in personal service contracts.

However, these reforms are not free of problems. There is a risk that the priority mission group initiative triggers pressure for additional supplemental schemes in other sectors (e.g. police and military). But the greatest risk probably comes from parallel donor funded incentive schemes. For example, the Public Finance Management Program (PFM) that is supported by several donors also features a merit-based pay initiative for officials responsible for the PFM reform agenda. Levels of incentives are up to three times higher than the national scheme, but only 15% of the centrally located staff will be entitled to participate in the scheme. There is a risk that income inequality within the civil service will be exacerbated, in this way.

<u>Afghanistan</u>

In Afghanistan, different solutions were applied to solve salary inequality problems. The Afghanistan Reconstruction Trust Fund, the EC funded Capacity Building Groups, as well as USAID paid higher salaries for staff who function as advisors under contract. A component of the ARTF also supports the recruitment of expatriate Afghans. One of the key drivers for structural and functional reforms is the Priority Reform and Restructuring Initiative. The initiative links enhanced payment to ministries' initiatives for public sector reform. Amounts can range from US$ 40 to US$ 500 per month. It is still too early to evaluate the success of such schemes.

Sources: Keuleers, Patrick. "Cambodia Mission report", December 2004, Flaman, R: "Afghanistan, Merit-based recruitment and public sector reform".

Justice and Security Sector Reform

In the absence of the rule of law, armed conflict is manifested in systematic and widespread violations of international humanitarian and human rights law. Legislative, judiciary and law-enforcement institutions suffer from capacity deficits, and are often severely compromised by military and political factors related to the conflict. In establishing an environment that is conducive to the rule of law, it is essential to replace a military culture with a constitutional and legal framework, competent law-enforcement and an independent judiciary. However, institutional capacity development must be complemented by immediate peace-dividends at community level where state protection is the weakest and physical/legal protection will remain a very serious threat to communities well into the peace building phase.

At both central and local level, capacity development must be geared at empowering national stakeholders to actively engage in preventing and bringing an end to violations of international and national laws, restore confidence in informal and formal conflict

resolution mechanisms, and gradually build a culture of justice – a culture that is responsive to long-term capacity-building and sustainable human development.

The Rule of Law/Justice & Security Sector Reform must be closely aligned with a broader agenda of democratic governance and that of crisis prevention and recovery, so to address the multiple layers of citizens' legal and physical security and enjoyment of human rights – be it at community level, or within a structural and political framework of state responsibility.

A sequenced approach must entail: (a) restoring and strengthening the knowledge base in domestic and international laws and procedures; (b) provision of operational and infrastructural means to carry out justice and security sector functions; (c) attitudinal transformation towards the concept of a social contract that rests on the premises of human rights (civil and political, or economic, social and cultural). Against this objective, and while structural and legal reform are imperative for institutionalizing the rule of law, the impact of effective capacity development in the rule of law sector will, eventually, be measured by the degree of safety and justice experienced by the citizens in a state.

Box 4: Security Sector Reform in Albania

 In Albania, UNDP focuses on improving human security and social cohesion through a combination of community based policing, capacity building in state institutions, organized outreach to schools and students, citizens surveys and working with "community-based problem solving groups".

The JSSR programme is primarily aimed at achieving increased community safety, security, transparency and accountability in the police services. To this end, the three main objectives are: (i) greater awareness among citizens and youth about, and more information provided on, community based policing principles; (ii) improved police image and enhanced professional capacity of the police; and (iii) increased cooperation between the public and the police. Activities entail, *inter alia:*
- Establishing 'pillars of permanent collaboration' between the education sector and the police to enable a more effective response to security threats
- Police training
- Construction of reception halls in pilot site police stations into customer-friendly premises
- Public surveys in order to measure the progress and impact of community policing initiatives.

D. Capacity development not capacity substitution

The demand for "quick-fixes" can result in capacity substitution as an easy early win, where external organizations and consultants are brought in to perform line functions and provide expertise that could and should otherwise be fostered locally. Even if this capacity substitution is judged necessary as an immediate palliative, if no clear exit strategy is envisaged, substitution may actually reduce pressure on governments to enact needed longer term reforms that underpin a more sustainable development agenda and achievement of long term goals.

Implementation challenges can delay a reform process and cause a backlash of unmet expectations in all types of development situations. Management, sector and technical needs, from health, education, energy and water, to local procurement and fiduciary

management capacities must not be neglected. In the international development cooperation context, the easy solution to the provision and strengthening of such capacities, is the rapid deployment of external expertise. Governments and donors should and must be able to contract internationally, but with a keen sense of first what is available locally, and what specifically needs to be upgraded, supplemented and, as needed, temporarily substituted from the outside.

In practice, evidence shows that a period of capacity substitution is often unavoidable. Recent applied research points to a period of not less than ten years for the full recovery of a country's public services, administration, and functioning community structures following a serious conflict or natural disaster.[14] However, choices can be made to make such interventions by the international community are as constructive for capacity development as possible. The infusion of external technical assistance needs to be weighed against the vision for development for a country, the need for national ownership and state legitimacy (including who gets the 'credit' for bringing quick wins to the population), and the long-term interests of capacity development. Quick 'wins' are clearly desirable and needed, but should be carefully planned to promote national ownership and ensure that peace dividends serve to bolster accountability and trust in national leadership in the medium to longer term. The challenge, then, becomes striking a balance between producing short-term results while maintaining a commitment to long-term development objectives.

Box 5: Capacity development of local stakeholders in Sudan

In Sudan, long-term capacity building programmes of the National Judicial Service Commission, the Judiciary, the Ministry of Justice and the Ministry of Interior, were complemented by state and community-level empowerment. In Darfur, UNDP placed rule of law within an Early Recovery framework in an ongoing humanitarian setting, and conducted capacity development of legal professionals, the judiciary and police amidst the crisis. The programme enhanced vulnerable populations' and women's access to legal representation and justice in the existing court-system – leading to 2,000 cases brought before the courts. The focus on local empowerment entailed:

- Training IDP communities as paralegals and managers of Legal Aid Centers within the camp premises. The objective was to build the capacity and confidence of displaced populations to: serve their own communities as change agents and advocates; and to claim their rights and raise awareness in their communities in a non-violent manner; and, refer cases of SGBV to the Lawyers Network.
- Capacity building support to Lawyers Network and Social Workers to provide legal representation as well as psycho-social support to SGBV victims.
- Capacity building and training of judges, prosecutors, police and corrections officials in order to ensure a parallel and educational engagement with justice and security institutions – institutions before which the victim's right will be represented.
- Establishment of Legal Information Centers to provide access to legal information, including human rights and domestic law, as well as to provide a space for debate, and discussion between the rights-holders (displaced populations, communities) and duty-bearers (government authorities, academia).
- Confidence building measures, including awareness raising and policy dialogue with local government officials, including police, civil authorities, army, militia and rebel groups, so to build bridges between protagonists of the conflict and civilian population.

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[14] Refer Evaluation of Development assistance and recovery efforts post-Tsunami, 2006.

Lessons learnt on capacity substitution:

- Clearly define and guide the roles of external experts, whether as short term technical consultants or as longer term mentors and coaches (e.g. the on-the-job coaching and advisory services for senior policy-makers and civil service middle managers introduced in Kosovo in July 2004, see **box 6**). The undefined areas often cause dysfunction, unmet expectations or a break in the accountability for results.

- Avoid substitution in straight forward functional capacity areas, where training for upgrading of existing administration, procurement, logistics skills could be adopted in the short term. These are skills for which broad based local training proves effective.

- Ensure contractually-agreed exit strategies, based on clear time frames for the 'localization' of posts. Carefully phased exit plans in different areas of support need to be constantly reviewed based on progress made.

- Provide longer term learning and exchange opportunities, such as through specialized fellowships or institutional twinning arrangements (such as those introduced by UNTAET in Timor Leste in the first two years after independence).

- Specify incentives and performance measures that reflect transfer of skills and that are not reliant on personality and good will.

- Determine and establish progress measures to assess capacity development in a field, or institution, so as to make course corrections and encourage further time and resource investments in capacity development as needed.

- Maintain a balance between skill development and brain drain (see case of Romania, **box 7**) through a mix of contractual measures and incentives.

Box 6 : Kosovo: avoiding capacity substitution
In May 2004, UNDP and its partners established a Capacity Building Facility (CBF) to achieve Standards for Kosovo defined by the UNMIK mission. The program utilized a multi-pronged approach to avoid the hazards of capacity substitution while still achieving necessary quick results.

➢ Coaching services were offered to select middle and senior level civil servants where a skilled counterpart acted as an "on the job" coach or mentor.
➢ The CBF sought not only to transfer relevant technical skills, but, perhaps more importantly, to enhance leadership skills and promote an active approach to reform through results-based change management, initiative, accountability, and risk-taking.
➢ Advisory services offered greater technical support through the employment of full-time advisors for one year, to strengthen capacities to formulate and guide the implementation of institutional reforms.
➢ Short-term Technical Advisory Services (TAS) allowed the CBF to show quick results by providing consultants for short term (2 to 6 weeks) technical assistance.

The combination of these components allowed the CBF to respond quickly to the needs of Ministries and donors without sacrificing long-term capacity development objectives.

E. Mutual accountability and social cohesion

Effective and sustained capacity development during transition is closely linked to mutual accountability mechanisms between people and the state.[16] This brings about a necessary emphasis on investing in the right kinds of leadership at all levels, and on monitoring risk and tracking results throughout the process. Democratization programs to build capacity of parliamentary assemblies, local governments, political parties, civil society groups, and free media will often be central to restoring a sustainable, stable relationship between state and polity.

Establishing or reinforcing the accountability mechanisms of the state entails deepening its capacities to: engage in multi-stakeholder consultations on key elements of the transition; provide the public with access to information and to decision-making forums; strengthen public review and feedback mechanisms; and manage negotiations among the differing priorities, views and roles of state and non-state actors.

The broader capacitating of society, through the promotion of a culture of accountability, trust, empowerment, and transparency, is a longer term goal that requires constant reinforcement but must be viewed as central to giving a transition real traction. Strategies include information sharing, broader participation in decision-making, and mutual accountability mechanisms (see **box 8**). This enhances the legitimacy of the state and provides the basis for a more structured and stable growth of democratic institutions.

Of particular importance is the role of non state actors in post conflict and transition situations. They are an essential part of the rebuilding of a country's political, economic and social infrastructure, whether for the more immediate recovery and peace process or longer term stability and growth. The identification of priorities and the development of strategies to support capacity development for non state actors, including NGOs, CSOs, the media, local businesses are a key part of an initial capacity assessment and response. In many post-conflict contexts (e.g Guatemala, Kosovo) civil society organizations find themselves in a mission vacuum following a peace agreement, as the demand for state capacities to take on more of the governance, security and service delivery functions increase, and expectations of, and space for, what non state actors can and should do

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[15] http://www.undp.ro/governance/scholarships.php
[16] See separate Note on CD and Mutual Accountability Mechanisms, UNDP, 2006

shift. In other instances, this role could be enhanced, as the state is unable to ramp up its own capacities to do so. Either way, this is an area for further defining engagement.[17]

Key challenges in building capacities include the de-linking of capacity development from project delivery, and the design of more comprehensive strategies that address the needs of the sector and individual organizations. In addressing capacity development for the non-state sector, systemic, organisational and individual approaches are essential to ensure that results are sustainable and positively reinforce each other. Key elements to include in such integrated capacity development strategies are: visioning, conflict analysis, negotiation and mediation skills at the individual level; re-establishing institutions for public service delivery, rule of law, and human rights at the organizational level; and coalition-building, multi-stakeholder processes, and inter-organization confidence-building processes at the systemic level.[18] Increasingly, emphasis is placed on: the development of sector-wide and other comprehensive strategies that link civil society and the state with capacity development efforts aimed at the interface between both; and the strengthening of notions of citizenship. In this way, capacity development programmes should be designed in a manner that is responsive to local dynamics, needs and social support networks.[19]

Box 8 : Civil society in anti-corruption efforts: initiative to monitor oil revenues in Chad

Chad has a freshly exploited oil reserve for which production started in 2003. Although oil was discovered in Chad over three decades ago, years of conflict and technical challenges prevented the country to exploit this valuable resource. In 2000, the World Bank provided support for the construction of a pipeline to transport oil from Chad through Cameroon to the Atlantic Coast for export. The $4.2 billion Chad-Cameroon Petroleum Development and Pipeline Project represents not only the largest single private investment in Sub-Sahara Africa today, but also one of the world's most significant initiatives to promote poverty reduction through targeted use of oil revenues.

The most innovative feature of the project is the establishment of a legal framework that assigns money for poverty reduction expenditures and creates an oversight committee to ensure the transparent management of the country's oil wealth - *Collège de Contrôle et de Surveillance des Ressources Pétrolières (CCSRP)*. The *Collège* is a joint government-civil society revenue oversight committee, composed of civil society representatives , parliamentarians, the Central Bank, the Treasury, and a member of the Supreme Court.

The Collège has three main functions: Overseeing that oil revenues deposited in an offshore account correspond to the declared production volume and the terms of the sales contracts; ensuring that the government allocates the oil revenues according to the law approved by Chad's Parliament. The law in question sets out the arrangements for the use of the revenues as follows: 10% of the royalties and revenues to be held in trust for future generations; 5% to be earmarked for regional development in the oil-producing area; and the bulk of the remaining 85% to be devoted to education, health, social services, rural development, infrastructure, environmental and water resource management; and approving priority sector allocations, and verifying that these projects are satisfactorily executed.

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[17] A separate paper on the engagement with non state actors in post conflict situations will be made available by end 2007.

[18] Bill Sterland, Civil Society Capacity Building in Post-Conflict Societies: the experience of Bosnia-Herzegovina and Kosovo, INTRAC, 2006, Oxford.

[19] Michael Lund, Peter Uvin and Sra Cohen, Building Civil Society in Post-Conflict Environments: from the Micro to the Macro, Woodrow Wilson International centre for Scholars, Project on leadership and State Building Capacity, 2006.

In its short life, the Collège has made promising strides to establish itself and demonstrated acting with rigor and transparency despite many challenges. Besides the members of the Collège, other local civil society organizations have mobilized to guarantee oil revenues are directed towards poverty alleviation. Substantial energy is being invested in strengthening participation in budget monitoring through budget literacy and budget advocacy tools at the local level.

Sources : Jim Shultz, *Follow the Money: A Guide to Monitoring Budgets and Oil and Gas Revenues*, New York: Open Society Institute, 2005: 33; The International Budget Project, "*CSOs Examine Chad-Cameroon Pipeline Project and Chad Budget Process*", The International Budget Project Newsletter, Bimonthly No. 26 (March 2005); Ian Gary and Nikki Reisch, *Chad's Oil: Miracle or Mirage?* Catholic Relief Service and Bank Information Center, 2005; Collège de Contrôle et de Surveillance des Ressources Pétrolières, "*Report of Mission to Sites of Project Finance by Old Revenues*," http://ccsrp-tchad.org/site/index2.cfm ; and http://www.worldbank.org/afr/ccproj

SECTION III.
SUPPORTING CAPACITY DEVELOPMENT: LESSONS FROM PRACTICE

A. Capacity assessments with needs assessment

Along with an assessment of recovery needs, an objective assessment of the *national capacities* available to meet those needs should be undertaken as an early step to guide the formulation of a capacity development support plan. However 'quick and dirty' it may have to be at first, such assessments produce an initial "capacity baseline" grounded in an agreed set of performance standards meeting international good practice criteria. They also help analyze and recommend areas of intervention, through strategic capacity development initiatives and targeted quick impact actions to support the transitions process. (see **box 9**)

Box 9: Capacity and Needs Assessment in Afghanistan

The Government of Afghanistan undertook a comprehensive review of its systemic and institutional capacity within ministries, departments, and agencies (both at the national and sub-national levels), in which 20 senior civil servants representing 11 ministries, together with senior Afghan government advisers, participated. This was supported by international partners, with local and international experts. The dual purposes of the assessment were:

1. To derive "areas for improvement" across all areas of operation,
2. To identify a small set of priorities for initial systemic CD that could enable the achievement of a credible platform on which performance improvements at all levels could be predicated.

Source: UNDP (2006) - Afghanistan, http://www.undp.org.af/

B. Supply and demand

The demands for capacity can easily outpace supply – this is true for both local and national partners, and the international partner's own ability to respond. This needs to be recognized, planned and well managed. For example, the need to scale up support to urgently identified areas up front while sequencing other interventions in subsequent phases must be planned and budgeted for deliberately. Lessons from current practice point to the need to intervene on a large scale and have an exit strategy from the outset.

C. Need for quick wins

Another issue that is often faced is *the rise of unmet expectations* – on the part of a state towards its citizens, and on the part of donors towards their national counterparts. An open information strategy and sharing of regular updates of progress (or lack of) are important to address this issue. Such measures must be instituted early on in the transition, among leaders and citizens, partners and clients.

D. Effective leadership

In meeting the challenges and sensitivities around leadership, the right political mix of civilian leadership involvement is critical for a country to move through its period of transition. This includes looking at the delicate balance between the perceived 'winners' and 'losers' of a change process, of supporting the mix of vision, decision-making/management and technical skills in leadership, and in supporting leaders that empower and open processes of participation and dialogue at all levels.

A process of transformation, that requires the staying power of capacity development efforts and investments, requires the engagement of both technical and political leadership, at national and local levels, to make it happen. Without this, success is next to impossible.

E. Engaging diasporas

Transitions often lead to the return of diasporas. Diasporas can play an important role in strengthening national capacities at critical junctures, but can also heighten sensitivities in post-conflict settings where tensions may exist as a result of the roles played during the conflict and between those who left the country and those who stayed. Decisions to reach out to a diaspora deliberately as part of a capacity development strategy should, therefore, be carefully considered and planned. A number of effective 'brain gain' initiatives have been put in place by governments to attract skilled nationals required in specific professions and political posts.[20]

F. Local governments

In transition settings, a local development agenda often lays the most tangible foundation for reconstruction and participatory decision-making for the population at large. This is true not only of public administration, budgeting and expenditure management, fiscal administration, and security, but also, importantly, for basic service delivery of health, education, safe water and sanitation. In the early stages of a transition, when there is an absence of well-functioning local governments, communities and NGOs may instead take a lead in local service provision. But experience demonstrates that early engagement on decentralization and devolution to local governments, coupled with a deliberate focus on local capacity development, can have strong positive catalytic effects on participatory resource allocation and economic revival at sub-national levels.

Experience also shows that sustained engagement, for approximately ten years, is essential both to effective consolidation of capacity as well as for scaling-up. Local development/decentralization approaches, particularly in post-conflict settings, often begin in a handful of provinces for piloting purposes, then will be scaled up to national scope after consolidation of lessons. Geographical targeting of such pilots can also address conflict risk areas to serve a preventive peace consolidation objective.

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[20] For a review of select brain gain case studies and lessons learnt, refer the CD Action Brief on Brain Gain, UNDP, June 2007.

Simultaneous support to communities and local private sector to develop capacities for participatory management and contracting of services plays an important role in revitalizing local economies and sustaining the results of local development.

G. Managing transition resources

National leadership in the decisions to access, manage and monitor transition financing is a critical element of protecting and ensuring national ownership of the reform agenda. Financing transitions, to the extent possible, must be carried within the national budget, with parliamentary oversight. Where this cannot be instituted immediately, and national budgets need to be supplemented, multi-donor pooled funds can be introduced, with joint government-donor management and oversight arrangements agreed by the involved partners (see **box 10**).

Similarly, there should be national management and direction of programmes for economic recovery, such as employment schemes, local service delivery and market infrastructure. These are often 'quick wins' that need to move into national management and oversight as soon as possible. Similarly, using existing local administration, materials and skills for rebuilding community infrastructure and services can serve both an immediate basic need for the recovering communities as well as put ownership and accountability back into local hands (while recognizing larger national political needs, such as initial power-sharing). Clear, time-bound, and mandated exit strategies in international partner agreements, to 'let go' the direct management and service provision role, are essential in this respect.

Box 10: Financing transitions: lessons from Bosnia-Herzegovina and the West Bank and Gaza

• National ownership: Implementation of reconstruction programs has been most effective in those sectors where priorities of donor assistance have been established jointly with the authorities. Involvement of local stakeholders (including the private sector, local communities, NGOs, etc.) has improved the efficiency and likely future sustainability of donor-funded investments.

• Donor Coordination: Donor coordination is essential to avoid the emergence of gaps or duplication in funding, and inconsistency of policy advice, as well as ensuring sustainable budget expenditure planning. The involvement of the authorities in aid coordination is also essential for improving coordination and local ownership of the reconstruction program.

• Sustainability : Institutional and policy reform has generally been a secondary priority to physical reconstruction. Future efforts should focus on establishing the strong institutions needed in a market economy as well as on critical transition reforms early on in the reconstruction process. Assistance for training in skills needed in a market economy, such as finance and management, are also important in many post-conflict settings.

Source: OECD DAC (2003). Financing and Aid Arrangements in Post-Conflict Situations (World Bank Working Paper No. 6, May 2003)

H. From quick impact to long term

Linking quick impact projects to longer term strategies of capacity development and reform can prove technically difficult. Capacity Development Facilities (elaborated in next section) can, if used wisely, provide a link between quick impact initiatives and longer term reform or reconstruction of the country's state system. (see **box 12**).

UNDP should work with government, non-governmental, and international partners to regularly review and update good practices in areas such as: diagnostics tools; incentive mechanisms; monitoring and accountability systems; and the use and management of various funding modalities (e.g. direct budget support and debt swaps, as well as multi-lateral pooled funds during transition periods), so as to assure continued alignment with national priorities and needs, and to update and share lessons and good practice among countries in transition.

Box 12: Georgia – debt rescheduling and salary supplements

Following the 2003 Rose Revolution in Georgia, the new government inherited a dysfunctional country (corruption-riddled economy, energy shortages, infrastructure in disrepair, routine tax avoidance, wage and pension arrears, etc.) but a large state bureaucracy. The country faced two major constraints: it lacked the skilled professionals needed to design and execute sweeping reforms; and, the state lacked the resources to pay salaries that might convince those with qualifications to take on jobs in public service.

A three-year phased-out UNDP-OSI (Soros's Open Society Institute) Capacity Building Fund instituted shortly after the elections enabled Georgia's government to recruit the staff it needed to re-schedule its foreign debt and organize tax reforms, usually the most pressing budgetary items in transition countries. This short-term intervention with quick budgetary pay-offs left scope in the budget to address other needs and to turn to more long-term strategic reform of the public sector. From this external expertise, the CDF switched to providing salary top ups with explicit limitations on duration and linked to an improvement in the financial base of the state. Tax collection was improved so significantly that the salary supplement program for top officials was fully taken over by the state budget after just a single year.

Source: UNDP (2005) Governance Reform Program for Georgia

SECTION IV.
THE ROLE OF CAPACITY DEVELOPMENT FACILITIES

One mechanism to address the kinds of capacity development challenges discussed earlier in this concept note, in the form of a comprehensive and common framework, has been the introduction of Capacity Development Facilities (CDFs). CDFs, often introduced in transition settings, offer a common government-donor platform to support capacity development efforts, from short-term injection of salary support, to institutional change management and skills training. They allow different forms of fund management and programmatic engagement, through pooled funds, to be administered either by the government or by a lead donor. The CDF is a grant-making facility for capacity development-based proposals, for support to immediate reforms required primarily in the public sector.

An analysis of facilities currently adopted on the ground demonstrates local variation in design and priority issues addressed. However, some common themes emerge around the planning and execution of a successful CDF, as follows:

- It requires a full partnership between the national government, former combatants, or marginalized populations, and donors that articulates short and medium strategic goals as the starting point for negotiations on programme and funding responses.

- A common understanding and agreement of prioritizing capacity development, as the driver in this CDF response framework, is critical, even when direct service and intensive externally provided technical cooperation is required at the start.

- An assessment of existing capacities of the governance/enabling environment, organizational and human resource capacities needed to achieve these goals, at local and national levels, provide a systematic entry point for programme collaboration.

- Agreement on a range of capacity development strategies to address the needs identified must be negotiated with all relevant stakeholders, and requires a political commitment and staying power often beyond the life of an initial project.

- To avoid scattered and competing interests, a common platform for fund mobilization and management, with a pooled fund and clearly defined roles and responsibilities for the national and international partners, is inherent in the design of a CDF.

- A transparent information campaign around the goals and results of the CDF, based on the systematic monitoring of implementation, is essential for continued support to the CDF.

Traditionally, the involvement of the international development community in capacity development during transition periods has been short-term and has focused on externally-driven technical assistance. Too often such a response has not been nationally-determined, frequently leading to insufficient understanding of local priorities and

insufficient involvement of local expertise. These factors, together with inadequate involvement of national political leadership and excessive inter-donor competitiveness, have led to mixed results. The concept of a CDF seeks to introduce an improved approach through which a more coordinated and sustained commitment can be encouraged on the part of the donor community. A CDF is introduced to provide an integrated and pooled fund to assist a country in transition achieve its short and medium term capacity development goals, in addition to stability, a vital ingredient that provides the conditions for more traditional development activities to take root.

Each country will have its unique priorities for capacity development in transition, so there can arguably be no standard "one size fits all" capacity development solution. Each CDF must reflect a particular interpretation of a flexible process in design and implementation.

Lessons learnt on CDF implementation:

There are some extreme circumstances (immediate post-conflict, post-revolution and post-natural disaster) where a government is largely incapable of meeting the administrative capacity demands of the nation (Mozambique 1992; Cambodia, 1992). In these circumstances, the international community has a duty to step in with significant - though interim - policy advice and programme support to areas of most urgent need (e.g. expertise on debt negotiations provided to the new Georgian government in 2004).

However, experience shows that a reform process should not rely too heavily on outside policy advice and expertise, which can actually prove counterproductive and reduce the pressure on a national government to enact structural reforms over the long term (see box 14). Therefore, capacity development programs should start with, where possible, a mapping of current and future capacity needs that support a state moving from transitional/interim arrangements to longer term legitimacy and management of reform with an eye to supporting larger political/social change. UNDP can play an effective role in supporting this type of transition process, and in facilitating such efforts.

Box 13: Serbia - Capacity Building Fund

In the wake of sweeping changes that resulted in a democratically elected, yet capacity insufficient, government in Serbia in January 2001, UNDP initiated a Capacity Building Fund to pool and coordinate multi-donor support for institutional development and reform. Because of the strong momentum towards reform, combined with the dearth of capacity for making such reforms, there was an immediate need for the injection of consultants and donor funds to simply maintain regular government operations. Such a strategy ultimately proved counter-productive, however, as the focus on long-term results was sacrificed for the sake of meeting basic administrative demands in the immediate term.

A massive injection of temporary external experts served to satisfy immediate capacity needs thus lessening the urgency for true public administration reform. Though the CBF was established to coordinate donor funding, donors were still engaging in bilaterally agreed programs with cherry-picked ministries that resulted in ad hoc, one-off interventions. In part because of competition for donor funds, ministries were under pressure to produce results, leading them to pursue quick, demonstrable fixes at the expense of long-term reform.

While the planned duration of the program was one year, it was clear after this period of time that any change made was unsustainable, thus assistance was extended so as not to interrupt the whole reform process. In this manner, the program carried on for four years.

While the CBF was successful in resource mobilization and sustaining the Serbia's basic administrative needs, it was not successful in true public administration reform or capacity building. Fortunately, the lessons from Serbia's CBF experience have been implemented in subsequent programs that have met with much success. The main lesson was that in times of tumultuous transition, it is very easy to be overly ambitious with capacity building programs. Donors and citizens must be kept informed as to the long-term nature of true reform. "Success criteria" must be established early in the program, but must also be realistic and maintain a focus on capacity building rather than capacity substitution.[21]

Capacity development works well when countries have clearly-articulated and widely-supported strategic goals. In these circumstances, governments can take the lead in the management of donor assistance, the definition of capacity development priorities, and the re-alignment of national budgets towards the achievement of strategic goals. Here, UNDP has the legitimacy to act as an "honest broker", to help governments in realising these objectives and supporting civil service capacities, for example, to manage longer term public administration reform. It can be argued that UNDP's responsibility in the area of capacity development for transformation is even more complex and challenging in such situations, as it can have a direct impact on the dual challenges of stabilizing a state and contributing to its socio-economic future.

It is important to ensure that capacity development assistance and the objective assessment of government's achievements in administrative capacity development are performed by different agencies. For example, it is very difficult to provide a government with an objective assessment of its achievements in administrative capacity development if the same agency is heavily involved in providing direct support to the capacity development process.

The human resource dimension of capacity development is critical and many countries have significant difficulties in attracting and retaining the necessary quality staff. Salary supplement schemes can be justified in very specific circumstances – but experience shows that it is difficult for governments to deliver the agreed conditions. On their own, salary supplement schemes are not sufficient to resolve staffing issues and a more sophisticated approach to overall incentive arrangements is needed.

More consideration needs to be given to the development of diagnostic tools to assess capacity development needs, achievements and future priorities in societies moving through rapid and uncharted transformation.

Traditional "technical consultancy" models do not translate well into good capacity development consultancy; the expertise to transfer expertise is as important as the core expertise. Alternative models (e.g. twinning) exist and are worth considering. Often the circumstances within which experienced consultants are required to work are counter-

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[21] Serbia Case Study, Seminar on Capacity Development During Political Transitions, Senec, Slovakia, 2005

productive (e.g. excessively detailed terms of reference and short time scales). Local consultants and building up local expertise capacities represent a good "half-way house" between international capacity substitution and civil servant capacity development.

It is often advisable to throw the capacity development net beyond central government ministries to encompass local authorities as well as the legislative, judicial, and security arms and institutions of a country. Similarly, national level capacities are supported with complementary capacity strength at the local levels. In post-conflict transitions, such a comprehensive, multi-sector approach will almost always be a vital part of a wider peace building strategy.

<u>Recommendations for designing and supporting CDFs</u>

As detailed in Section IV, CDFs provide an overall donor platform for looking at capacity development in a coordinated and common way with a capacity development agenda linked to and underpinning an economic and reform agenda. This alignment provides a more strategic and comprehensive governance framework to capacity development efforts and ensures greater sustainability of results.

o The right leadership, both in terms of political vision and management of the CDF, is a key choice, and must be made in a consultative and inclusive way. Supporting government to assess capacities to determine the choice of leadership and oversight mechanism to guide the CDF, on both individual and institutional levels, is a key early step.

o A CDF provides a pooled fund mechanism, often administered at first by a lead donor. However, the fund over an agreed period of time must move to national management, and the finances directly into national budgets with government and legislature directing it. The government could then still decide if they wish to have a lead donor or international service agent assist it with administering the CDF, or some of its services, on their behalf.

o From an operational perspective, there are two main elements:
   a) Such facilities allow donors to get involved in different forms of engagement, i.e. implementation support, short term advisory services, long term technical assistance, etc. The project modality may be used for these activities
   b) A second form of arrangement is an open grant-making window to support capacity development proposals from national and local administration and civil society.

o Capacity development entails long term engagement, and results do not happen overnight, but donors and governments are often impatient and want to see short-term results. When negotiating a CDF, an accompanying advocacy strategy should be used to ensure a common understanding and basis for national and international stakeholders partnering on the CDF, including on expectations, results time frames and the resource requirements over time. This provides for an openness and

understanding on who can stay the course and what the specific commitments are over the short and long term.

o Facilitating brain drain into brain gain and providing incentives for leaders and technical experts to stay in their countries, or conversely for diasporas to return to their respective countries, even if for given periods of time, is often a necessary ingredient of CDF supported civil service reform and state-building processes. There is no contradiction in framing these facilities to provide short term support in areas where there is an immediate need, such as in time-bound salary support.

o Time-bound injections of salary supplements are acceptable if implemented in the broader context of a capacity development agenda and within the civil service and wage reform process. A review of the enabling and organizational environment to establish salary supplementation schemes and embedding them into national pay and performance reform can therefore be an introductory step taken by a CDF. A UNDP corporate guideline on engagement in support to national salary payment and supplementation schemes is forthcoming.[22]

o It is important to develop government ownership and maintain transparency in the design and operations of a CDF, and particularly one that entails such salary support. This often entails public information campaigns and regular stakeholder consultations.

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[22] To be discussed as an update to the 1996 JCGP policy on payments to government staff. UNDP Operations Group to consider draft guidelines in mid 2007.

SECTION V.
OPERATIONAL IMPLICATIONS FOR UNDP

A. Mandating an exit strategy

In transition situations, the window of opportunity for reform actions can be very short and yet the expectations are often extremely high. As a result, there could emerge a strong tug of war between funding short-term "quick-impact" projects and long-term capacity development planning objectives. The strong political pressure on new governments to produce rapid and tangible results for the entire nation can hinder capacity development by politicizing matters. As noted above, the demand for "quick-fixes" can, therefore, result in capacity substitution as an easy early win, where external organizations and consultants are brought in to perform line functions and provide expertise that could and should otherwise be fostered within the government. Even if this capacity substitution or mal-distribution is judged necessary as an immediate palliative, if no clear exit strategy is envisaged, substitution may actually reduce pressure on governments to enact needed longer term hard reforms, which will eventually weaken national authorities in the eyes of their citizens, especially those disenfranchised.

Short-term solutions are often necessary to build confidence and garner support of citizens during times of transition. They are vital for providing positive momentum for further change. The challenge, then, becomes striking a balance between producing short-term results while maintaining commitment to long-term objectives. Short-term fixes through capacity substitution may therefore be needed for governments to introduce or simply maintain key operations, and show quick, transparent and tangible results.

The use of international expertise: In the above context, and as referred in previous sections, an often pursued solution is to bring in external expertise to provide technical assistance in the short to medium term. This would be carefully considered under the following principles:

  a) That specific technical or management skill set does not exist in adequate numbers, and has to be developed (or recovered, e.g., diaspora) locally.
  b) The current security situation does not permit local expertise in that function.
  c) The current political context requires the objectivity and impartiality that an external would bring to that function.
  d) External expertise is required for a longer term coaching and mentoring role over a period of time, with an on-the-job hand-over that is not immediate in that role.
  e) The role or function benefits from a cross country and/or global experience and learning that is brought to bear for a given period of time.
  f) It is a role that has to deliver on a quick time-bound result, with no time for start up learning and training of local expertise, if none exists immediately.
  g) It is an expertise that comes as part of a package of services that includes introduction of a new system, software or other hardware product.
  h) It is a part of donor-government partnership agreements, subject to the above criteria.

Whether in terms of engaging external expertise, or in the context of a larger international presence in-country, the following would apply with regards to its growth and subsequent diminution:

- Direct support for service and management functions would be offered on the basis of an assessment of existing capacity assets and gaps. Such a capacity assessment can be a 'quick and dirty' process, but would provide an objective basis, however limited at this juncture, for bringing in external expertise, framed by the conditions above.
- With large flows of foreign aid coming in during such periods, the international conditions attached for financial management and service standards may not be met locally. While contracting these out to external agents, ensuring complementary capacity development support to rebuild such capacities in-country must be a mandatory clause within the letter of agreement/service agreement.
- Clear and time bound exit strategies must be negotiated from the very beginning, and included in legal instruments. Where relevant, these should be linked to the core elements of a peace agreement or Security Council resolution, if present, and to planning instruments that bind national priorities with international action (e.g. transitions results frameworks in post-conflict settings).
- Such exit clauses can be seen at the level of programme or project, as well as in individual expert contracts, as they serve a direct function for a specified period of time. Performance measures, monitoring systems and related incentive measures must reflect the meeting of such exit clauses, be it at an organisational, project or individual level, for them to be effective and taken seriously.
- Exit clauses often specify a time period, based on a hand-over period, and can also be differentiated and sequenced by function.
- For most functions, training and skills development for national staff should take place as a separate costed activity, with skills-specific trainers and learning opportunities included, and not be seen as part and parcel of a direct service provider's function and responsibility.
- Coaching and mentoring during a period of hand-over can be effective and included as part of an exit strategy.
- Monitoring the capacity development 'conditions' that are a part of the partnership agreement, in a manner that allows for a well-phased and supported exit strategy, is key to ensuring such phasing out is done in a professional and mutually-beneficial manner, with minimal fall-out arising from the departure of external expertise and systems.
- The monitoring of the exit strategy itself, and managing the consequences if such a condition is not met, must be an agreed part of the risk analysis and subsequent political and management response within the project and/or partnership agreement.

B. South-South and East-East cooperation for knowledge transfer

South-South or East-East cooperation is a development strategy first articulated by the UN in the early 1970s, whereby developing countries exchange knowledge and resources with each other to promote collective development. It is an approach that seeks to build

on existing regional knowledge bases rather than supplanting resources that have proven effective.

This is particularly important for European states in transition. The Central European and Baltic states are success stories in the transition from hyper-centralised to liberal-democratic social systems. Their policy makers, entrepreneurs, and NGO sectors contain a wealth of best practices. The import and adaptation of these practices is extremely important for their neighbours to the south and east to reverse the unfavourable development trends in the region. The comparative advantage of the EU 8 as providers of transition-related development assistance to post-communist countries is a particularly valuable resource for the region.

UNDP promotes such cooperation through the following mechanisms:
- The organization of study tours and peer-to-peer exchange missions
- In-country seminars and training workshops
- Introduction of such knowledge and practices into formal technical training curricula as part of civil service education
- Institutional twinning arrangements to facilitate longer term support and knowledge transfer between country institutions
- Facilitating open knowledge networks to share lessons and practice

Such mechanisms provide the opportunity to share knowledge and exchange best practices among countries and regions. It can also assist countries in assessing and maintaining inventories of countries' needs and the resources they can share to effectively pair knowledge exchange. One specific manifestation of this effort is the maintenance of a regional expert roster.[23]

C. Support to national coordination mechanisms

Lack of coordination, both between government and donors, and among donors as well, can lead not only to a duplication of efforts but also to a more disruptive competition for transition funds. Development aid that is delivered through a series of bilateral agreements rather than through a coordinated process also often results in supply rather than demand-driven projects, which are not always consistent with the governments' capacity needs. This can, in fact, hinder capacity development by binding government accountability to upward, outward donor demands rather than developing local institutions and assuring downward accountability. Effective government-donor coordination, led and managed by national authorities, thus provides a more efficient use of external funds while also making local "ownership" of projects and programs more likely, with mutual accountability.

Whenever a crisis prevails there is a broad spectrum of potential responses, along with a danger that every donor picks and chooses what it considers relevant. Donors inadvertently end up targeting the same sectors, while neglecting others that offer less political mileage and visibility. This is

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[23] UNDP BREC, Regional East-East Cooperation, Emerging Donors Project Document, www.europeandcis.undp.org/files/uploads/EMERGING%20DONORS%20PROJECT%20DOCUMENT_2005.doc

particularly evident where there is a lack of dedicated and competent enough leadership or where leadership for reform measures has been placed at a level that does not have sufficient power and support to ensure implementation. But even in these situations, development partners still need to be accountable to beneficiaries.[24]

Letting go is easier said than done. The Paris Declaration on Aid Effectiveness is a clear and specific directive on better donor behaviour, which puts national ownership at the core of aid effectiveness. Therefore, one step is to coordinate and harmonise among donors, but a much larger step is to be well coordinated and harmonized by the legitimate national government in the country, as the lead in the coordination of external assistance to a country during the transition.

Box 14: Lessons from the Afghanistan Reconstruction Trust Fund

In March of 2002, the World Bank took the lead in coordinating the massive influx of donor support that poured into Afghanistan after the ousting of the Taliban. By early 2005, 24 donors had committed nearly USD1 billion to the Afghanistan Reconstruction Trust Fund (ARTF), and for many of the larger donors, this represented a large share of their total assistance. The ARTF has been the donor community's response to the national authorities' strong and consistent request for a single, predictable, accountable source of un-tied funding for the recurrent budget, which is the Government of Afghanistan's top priority. Donor preferences are permitted only where funding gaps exist. This strategy has allowed the Fund to help donors satisfy constituent requests and thus ensure continued support, while at the same time avoiding the pitfalls of assistance constraints and rigidities. This balance must be continuously monitored to prevent donor fragmentation. ARTF put in place a variety of governance functions to ensure effective oversight.

In an innovative move, the Fund established a joint Management Committee (MC) with representatives from the Asian Development Bank (ADB), the Islamic Development Bank (IDB), UNDP and the World Bank. This body was responsible for reviewing progress and for key decision-making, specifically approving projects eligible for ARTF funding. The MC met periodically and expressed satisfaction at being kept well-informed and having a say in where support was directed.

Independent assessments have concluded that the ARTF has been effective in donor coordination as a result of its comprehensive yet flexible governance structure, its clear oversight, and reporting structures and practices. However, the need to move it faster into national leadership for monitoring and management has provided a sound set of lessons for both government and donor partners involved..[25]

UNDP has supported, with government and other donors, national donor coordination mechanisms in several transition countries uniting donor support behind clearly defined common objectives (see **box 14**). The involvement and leadership of national stakeholders vary, as do the models themselves. Joint Assistance Strategies, Harmonisation Plans, revised Round Table and Consultative Group, Direct Budget Support Coordination mechanisms are but some of the mechanisms in practice today.[26] Further study on the merits of these various modalities are required to know what works best for given transition situations.

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[24] Mizsei, Kalman and Lene Jespersen, "Capacity Building Funds - Support to Economic and State Reform in Transition Countries," UNDP, 2006.
[25] Scanteam Analysts and Advisors, *Assessment, Afghanistan Reconstruction Trust Fund,* March 2005. www.siteresources.worldbank.org/INTAFGHANISTAN/Resources/ARTFEvaluationFinalReport.pdf
[26] Refer Practice Note on Aid Effectiveness (forthcoming 2007) and related Guidance Note on Consultative Groups and Round Tables Nov 2006.

D. Costing of capacity development strategies

Costing methodologies are, by necessity, specific to individual situations. As a result, it is essential that a thorough capacity assessment be conducted prior to costing capacity development programs in order to effectively identify needs and how to address them. The approaches used today are primarily based on input costing. There are some general costing trends which can be taken into consideration when budgeting capacity development response strategies.

Though there is no one costing method that will fit every program, there are three basic methods that can be used:

a) Bottom-up approach - This method entails costing inputs at an individual level. Though this is likely more accurate, it is also time and resource-consuming and not the most efficient method for large programs.

b) International norms - Using this method, cost estimates are based on costs of past programs and internationally established norms of costs. While this method is probably the more efficient way to calculate projected costs, it might not be applicable to a particular country context in which such standard costing norms do not apply, particularly given the peculiarities of a transition context and often highly distorted cost regimes.

c) Individual programme costs - Available budget data for current programmes can be examined for applicability to new like-programmes. Costs are then estimated by calculating the average programme cost and multiplying it for wider or narrower coverage.

Box 15: World Bank - Categorizing Costs

It is helpful to divide projected costs into categories to better define and prioritize needs. The World Bank requires the following categories in costing reports which can be used for guidance when formulating categories for specific programming: timeframe; beneficiaries; budget categories and justification of division or said categories; data sources- how the costing estimates were derived; unit costs; locally vs. centrally born costs; user fees and costs born by others; and limitations.

Some considerations in costing capacity development:

- In costing for institutions in transitions, some costing items to consider are wages, salaries, and benefits of staff involved, both local and external. The expense of operations, maintenance and the purchase of materials, supplies and technology should also be examined. The project may entail capital expenditure such as surveys, designs and project management or require the purchase of technical assistance.

- Civic engagement, leadership development and public relations/information campaigns, etc. should also be considered and budgeted, where possible. In those cases where direct unit costs are not possible, an imputed cost for a basket of 'intangibles' can be considered.

- The budget estimates should be flexible to modification over time as programme costing is an ongoing process. Costing reports will need to take into consideration that as progress is made through a programme, priorities and sequencing may change. For this reason, it is important to have a solid costing framework, but one that is flexible to adjustments.[27]

- The larger issue is the embedding of capacity development costs into public investment, and hence into national and sector budgets, over the longer term. This is done through the input costing of the collection of CD strategies to be applied towards the achievement of an institutional, sector or national development goal.

Box 16 : Costing: Romania Special Scholarship Program

When planning the budget for the Special Scholarship Program in Romania, the scholarships provided were just one category of costs. Other operating costs were also considered, such as:

- recruitment and salaries of project personnel
- establishment of program office
- consultants (short term)
- public awareness campaign
  - printing
  - dissemination of printed material
  - establishment and maintenance of informational website
- technology and office equipment
- career fair for recruitment of new graduates
- monitoring and evaluation consultant
- continuous education/training events
- banking, audit, legal and miscellaneous fees

E. Measuring capacity development impact

Capacity development is by definition a qualitative rather than quantitative process that can vary on a case-by-case basis. It is important to define specific benchmarks (both progress and results indicators) during capacity assessments prior to programme implementation, and to articulate the potential impact on a given transition.

For institutions in transition, capacity development objectives are often linked to public administration reform. As noted above, reform traditionally focuses on such aspects as administrative openness and transparency, democratization, conflict management and resolution, anti-corruption measures, more effective financial planning and management, enhanced public communication, and public administration reform. Specific measurable indicators can be identified based upon the goals of the capacity development project. Examples are as follows:

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[27] NGPES Standard Costing Report Format, June 2004, http://siteresources.worldbank.org/INTCDRC/Resources/489940-1106664663586/ReportFormatGuidelines.doc

o *Efficiency of institutions*. This can be measured by service delivery, for example, and public perception of the effectiveness and inclusiveness of national and local governments. One means of measuring this is through the use of citizen score cards.

o *Human resource development*. States undergoing transition often have a poorly developed civil service, often because they lack incentives to attract dynamic and skilled personnel who most often have been driven out of the country. As the human resource capacity is developed, certain indicators can be used to measure success. For example, staff turnover can indicate the appropriateness of incentives for civil service staff. The ability to attract and maintain qualified staff on a representative basis (e.g. gender, ethnicity) is a key component of capacity building for institutions in transition, but so is recognition that the peace dividends (access to power/position) must be shared creatively in the short-term. The staff should also be able to clearly describe their roles and responsibilities within the government and these roles should be consistent based on positions, not individual persons. A staff organizational chart should be created to enable staff to have a clear picture of their position as well as the positions of others within the organization. Staffing should be drawn along demographic lines and should respond appropriately to the government's needs. States in transition are also often overstaffed as a response of employment due to political favoritism. Appropriate staffing can be considered an indicator of capacity building success. Performance appraisals should be a routine measure based on clearly defined principles of performance.

o *Managing and distributing revenue.* The state controls the mechanisms of tax collection and revenue transfer, and as such its efficiency may be measured by the timeliness of fund transfers for services provided to the government and the ability to estimate local revenues. The benefits of taxes and other revenue sources should be evenly distributed among regions to avoid economic disparities.

o *Transparency.* Governments should be transparent within their institutions as well as to the general public. The degree of judicial independence is a clear indicator of success in increasing transparency and reducing corruption especially in transition governments which usually suffer from a perception of instability and opacity.

Box 17: Monitoring in Kosovo

To best asses the progress of reform in Kosovo, the Capacity Building Facility (CBF) instituted a two-pronged approach to monitoring.   First, civil servants, who were paired with external counterpart coaches, defined specific objectives and indicators of success prior to project implementation. These indicators, based on the Standards for Kosovo benchmarks, were reviewed and revised by the civil servants and the CBF coach/advisor on a regular basis. Second, the coach/advisor, in cooperation with the civil servant, prepared a quarterly work plan which was split into monthly activities. Together, they also prepared monthly progress reports corresponding to set objectives.[28]

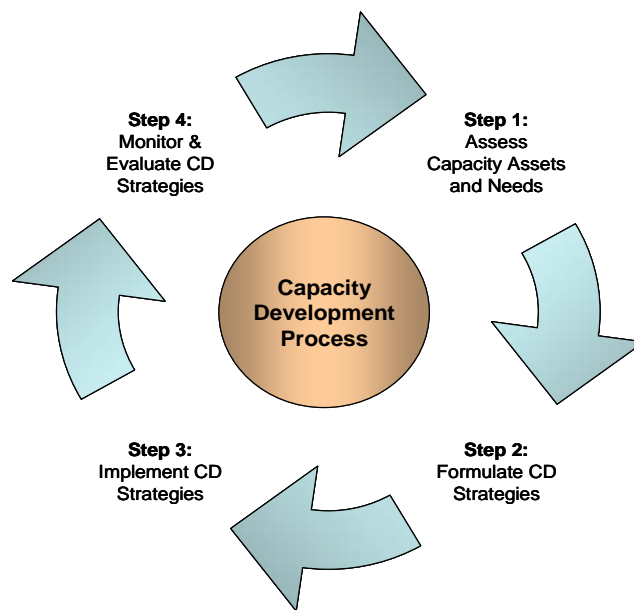[28] Kosovo case study, UNDP Kosovo 2005

In measuring the effectiveness of capacity development efforts and their impact on transitions, the phased approach to supporting national capacities is monitored over time. This lends credibility to exit strategies and provides a watching brief on the schedule of CD commitments allowing for a hand-over to national institutions as the required national capacities grow in competency and reputation. AusAID provides an approach (see **box 18**).

Box 18: AusAID monitors the stages of capacity development

o   *Dependent.* During this phase, external advisors play an exaggerated role in government functions and decision making processes. Capacity is very low and poorly developed.

o   *Guided.* Staff in this phase take increasing control over the decision-making process yet still work under the supervision of advisors.

o   *Assisted.* Clients are now taking primary responsibility in function and decision-making and consult advisors on the basis of need. Advisors offer occasional reminders and prompts but generally staff function more independently.

o   *Independent.* Staff are fully competent to carry out entire functions and to make decisions independently. Consultants may still be called upon for highly technical work, much as they are in developed countries, but government functions are entirely controlled by staff.[29]

UNDP provides a set of illustrative capacity development indicators which could be used to establish capacity baselines, and then monitor and track progress with the application of capacity development strategies. These are embedded within the capacity assessment methodology provided (schematic provided in **box 19**).[30]

Box 19: UNDP Approach - CD Process steps

Step 4:
Monitor &
Evaluate CD
Strategies

Step 1:
Assess
Capacity Assets
and Needs

Capacity
Development
Process

Step 3:
Implement CD
Strategies

Step 2:
Formulate CD
Strategies

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[29] AusAID, "A Staged Approach to Assess, Plan and Monitor Capacity Building," May 2006
[30] Refer UNDP Capacity Assessment Practice Note and User Guide, 2006.

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