

# Capacity development in economic policy agencies

Harry Greenwell and Bede Moore<sup>1</sup>

In the past decade, Treasury deployees have accumulated considerable experience of the theory and practice of capacity development in economic policy agencies in various countries in the Asia Pacific region. In this paper, we address issues that we grappled with in our roles as capacity development advisers in Papua New Guinea and Solomon Islands, such as how to maintain good working relationships with counterparts, whether we were focusing on the right priorities, and how to assess whether we were being effective in our work.<sup>2</sup>

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1 The authors are from Markets Group and Macroeconomic Group, respectively, of the Australian Treasury. We were both deployed to the Structural Policy and Investment Division in PNG Treasury between 2009 and 2012, Bede was the manager of the International Relations Unit in the International Policy and Engagement Division between 2012 and 2014, and Harry was previously deployed to the Economic Reform Unit in Solomon Islands MOFT between 2005 and 2007.

2 This article has benefited from comments and suggestions provided by Barry Sterland, Graham Teskey, Rebecca McLaren, Matt Flavel, Paul Flanagan, Colin Johnson, Shaun Anthony, Joanne Evans, Darren Kennedy and Phillip de la Rue. We have also benefited from the exit reports of several former deployees. The views in this article are those of the authors and not necessarily those of the Australian Treasury.

## Introduction

The Australian Treasury first became heavily involved in the provision of ‘capacity development services’ in the early 2000s, with the deployment of Treasury officials to the (then) Solomon Islands Ministry of Finance (now Ministry of Finance and Treasury, MOFT) in 2003 and to the Papua New Guinean Treasury from 2004.<sup>3</sup> For several years prior to 2003, Treasury also sent a series of short-term deployments to the PNG Treasury through the PNG-Australia Treasury Twinning Scheme (PATS), an arrangement that endures. Overall, since 1999, Treasury has made at least 104 deployments involving 78 staff to PNG (52 deployments), Solomon Islands (30), Nauru (10), Indonesia (8), Iraq (2), Vanuatu (1) and the Seychelles (1).

In the past decade, Treasury deployees have accumulated considerable insight into and experience of the theory and practice of capacity development in economic policy agencies in various countries in the Asia Pacific region. This article attempts to document this experience.

During our own deployments to PNG Treasury and Solomons MOFT, we frequently wrestled with a range of questions about our role as capacity development advisers, such as:

- From the wide range of possible capacity development activities that we could support, were we focusing on the right ones?
- Where there was a tension between focussing on capacity development and achieving policy outcomes, did we strike the right balance between the two? In particular, did we make the appropriate judgments about the extent to which we directly assisted counterparts with the policy content of their work?
- Of the activities we pursued, were we pursuing them in the most effective fashion, were we achieving sufficient progress to justify our continuing presence, and what data could give us confidence in making this judgement?
- Were the improvements to which we contributed robust enough to outlast our tenure as advisers and, if not, what could we do to have a more sustainable impact?
- What was the best way to build and maintain effective working relationships with a diverse group of counterparts?

In this paper we flesh out our thoughts on these and related issues, ones that, we suspect, most capacity development advisers grapple with during their deployments. Our aim is to set out the conclusions we reached (and the questions that we still have) in the hope that they will be useful to current and future deployees to economic policy agencies, their team leaders, and those involved in the design and review of such programs. We hope that some aspects of our paper will also be relevant to our counterparts in PNG Treasury, Solomons MOFT and other economic policy agencies and to international organisations and academic researchers interested in capacity development.

Before proceeding, we wish to clarify the scope of the paper and acknowledge its limitations. We do not attempt to argue in this paper for the merits of capacity development programs (or for aid generally). Rather, our focus is on the effective delivery of such programs, since it seems likely that Treasury will remain involved in capacity development services for some time.

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<sup>3</sup> These deployments came under the umbrella of the Regional Assistance Mission to Solomon Islands (RAMSI) and what was then known as the PNG Enhanced Cooperation Program (ECP), subsequently renamed the Strongim Gavman Program (SGP).

Cross-cultural awareness and an understanding of the political economy of counterpart countries are both highly relevant, if not vital, to the design of capacity development programs and, indeed, the potential for such programs to be effective. These topics are covered in some detail in the existing literature and so we only address them where they are directly relevant to the *delivery* of capacity development programs.

Finally, our conclusions are, of course, a product of our perspectives and experiences. We are well aware that there is a lively debate on many of these points amongst deployees, our counterparts and others involved in delivering capacity development programs. This is our contribution to the debate.

The central theme underpinning this paper is that it is important to think strategically about capacity development. The following section provides context by reviewing the objectives and design of the capacity development programs that involve Treasury officials. The subsequent section lists seven key steps involved in adopting a strategic approach to capacity development; this provides the structure for the remainder of the paper.

## Capacity development: objectives and design

This section provides the context for subsequent sections by, first, briefly reviewing standard definitions of capacity development and its objectives and, second, outlining the main characteristics of the capacity development programs involving Treasury officials.

### Definition and objectives

Standard definitions of ‘capacity’ and ‘capacity development’ (or ‘capacity building’<sup>4</sup>) can be applied broadly to individuals, to organisations or institutions, and to society as a whole. ‘Capacity’ refers to the ability of these entities to ‘perform functions, solve problems and set and achieve objectives in a sustainable manner’.<sup>5</sup> ‘Capacity development’ then refers to the process whereby these entities ‘unleash, strengthen, create, adapt and maintain capacity over time’ or, on a similar definition, the process whereby these entities ‘develop competencies and capabilities ... which lead to sustained and self-generating performance improvement’.<sup>6</sup>

In our roles as capacity development advisers, we found it was important to think about the different levels at which capacity development can occur – for individuals, organisations and for society as a whole. However, the focus of this paper is on capacity development *in economic policy agencies* (what could also be called ‘*institution strengthening*’), unless specified otherwise.

The Department of Foreign Affairs and Trade (DFAT) has suggested that capacity development has two objectives:

First, performance improvement can be sustained once donor support ceases. Second and much more challenging, the partners can then go on to achieve similar performance improvement themselves as circumstances require over time. (AusAID 2009, p 1).

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4 AusAID (2009, p 1) states that ‘AusAID makes no practical distinction between the terms ‘capacity building’ and ‘capacity development’.’ We take the same view in this paper and have generally used the term ‘capacity development’ throughout, except in direct quotes from other sources. (Note that we cite AusAID as the author of any publications by the then-AusAID that were published prior to its integration with DFAT.)

5 This is a UNDP definition quoted in Matheson (2011). A similar definition is provided in AusAID (2009, p 1): ‘Capacity is the ability of people, organisations and society as a whole to perform appropriate functions effectively, efficiently and sustainably.’

6 The first definition, from the OECD DAC, is quoted in Bolger (2008, p 9). The second definition is from AusAID (2009, p 1).

In other words, successful capacity development advisers will, ultimately, do themselves out of a job.

These objectives – sustained performance and the capacity for self-regeneration – have two immediate implications. First, the point at which advisers are no longer needed is when organisations are ‘resilient’ in the sense that they have the capacity to address any serious lack of capacity themselves. Enhancing the organisation’s capacity for self-regeneration – its ability to build capacity itself – may be the most advanced stage of capacity development that can only be actively developed once other, more basic capacities, have already been entrenched.

Second, a long timeframe is required to fully achieve these objectives and should usually be measured in decades rather than years. In our experience, achieving significant, measurable progress against these objectives typically takes at least two to three years and so substantial program reviews should be conducted no more frequently than this.<sup>7</sup> Similarly, decisions to undertake capacity development programs should be based on long-term funding commitments.

### The design features of Treasury’s capacity development programs

While capacity development programs can take various forms, this paper reflects the programs in which Treasury employees participate. These programs typically have the following characteristics.

First, most deployments are long-term (two to three years), although they can be supplemented by short-term ‘twinning’ (less than 12 month) placements.

Second, Treasury capacity development advisers are usually deployed as part of a team, rather than as individuals. Team leaders then take on multiple responsibilities: to support and advise senior management in the counterpart agency, to lead the team of advisers (with responsibilities not only for adviser’s capacity development work but also for their safety and wellbeing), and to report to and liaise with Australian government colleagues both in-country and in Australia.

Third, Treasury advisers remain attached to the Australian Treasury for the purpose of performance appraisals, promotions and where they return post-deployment. As such, their performance assessments and incentives may be different to those of contracted or volunteer advisers. Further, deployees may be required to maintain communication with the Australian Government for program and individual evaluation purposes. Current guidance from the Australian Treasury encourages deployees to be open about these communication obligations and to maintain confidentiality regarding host government activities, consistent with local information disclosure laws and policies.

Fourth, in most cases, Treasury employees have not held ‘in-line’ positions within counterpart governments but have been strictly ‘advisers’. Nonetheless, deployees are assessed against a combination of policy outcomes and capacity development, with inevitable tension between the two objectives. The question of when capacity development advisers ought (or ought not) to intervene to ensure a policy outcome is discussed further below.

Finally, advisers are typically matched with a counterpart in an ‘individual-to-individual counterpart model’ that serves as the basis for joint reporting and assessments of capacity development. In practice, advisers usually provide capacity development advice to a range of staff, and this is often reflected in reporting on and assessments of capacity development outcomes. This suggests that an alternative counterpart model could simply match advisers with a team or organisation. While we see some merit in this idea, we do not explore it further in this paper.

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<sup>7</sup> For example, the key reviews of the ECP/SGP occurred about once every four years: see Dixon et al. (2008) and Callan and Saneto (2012).

## Thinking strategically about capacity development

Capacity development is a complex and challenging project and so adopting a systematic, strategic approach is essential. Drawing on Bolger (2008, pp 95-101), we have identified seven issues that can help advisers and counterparts to conceptualise and implement effective capacity development activities in economic policy agencies. These seven points provide the structure for the remainder of the paper:

- Take time to establish priorities
- Understand the importance of management capacity
- Effective relationships are critical to the effectiveness of advisers
- Advisers face difficult judgments about when to intervene and when to 'let things fall over'
- Measuring progress is important but difficult
- Think about the interaction between incentives and capacity development
- Recognise that capacity development requires specialised skills and expertise

## Setting priorities for capacity development

In our experience, the potential scope of capacity development activities can be very broad. In the absence of a thorough assessment of options, there is the distinct risk that capacity development priorities will be determined by whatever capacity gap becomes apparent first.

To assist with identifying possible priorities, we have developed a checklist of capacity development activities that advisers and their counterparts can use to assess possible priorities. This checklist reflects Bolger's (2008, pp 95-98) advice to think in terms of different 'capacity levels': individual, organisation/group, sector/network, public sector institutional context and enabling environment. It also recognises the distinction he draws between 'hard capacity' and 'soft capacity', which we discuss further below. The full list is Attachment A and is based on the following four broad categories:

- Staff skills, training and development;
- Divisional and Departmental systems and processes;
- Broader systems and processes in the Department or the public service; and
- 'Soft capacity'.

### Soft capacity: leadership, trust, team identity, values and morale

Of the four categories above, the first three principally relate to 'hard capacities', a term that refers to individual or organizational competencies, such as recruitment and promotion procedures, financial and resource management, or expertise in economics, law or related disciplines.

'Soft capacity', by contrast, includes features like leadership, legitimacy, trust, and an ability to motivate or strengthen team identity and values. Arguably, soft capacity also extends to a shared ambition or sense of what is possible, which may be more difficult to develop in organisations where there are few successful teams to point to as models. Bolger (2008, p 98) argues that:

various reviews and analyses suggest that capacity development efforts often fail, or fall short of expectations, due to a lack of attention to these less tangible, 'soft' capacity issues. Part of the reason is that it is usually easier to address hard capacities, which are more likely to yield objectively measurable results in the short to medium term.

The challenges associated with developing soft capacity are closely related to several ideas that are developed later in this paper. First, Bolger points to one of the difficulties with measuring the effectiveness of capacity development work. Second, senior managers are central to developing (or undermining) team identity, values, mission and trust and so the importance of soft capacity reinforces the centrality of management capacity to successful capacity development. (We discuss management capacity further in the section immediately below.) Finally, in a later section we reflect on the balance advisers must strike between when to intervene and do some of the work and when to step back to avoid creating unhelpful dependency. We found that we intervened most often to support managers in maintaining aspects of soft capacity, often because of concerns we had for team morale if we did not do so.

## Understanding the importance of management capacity

A key role of managers is to develop and sustain the capacity of their staff and teams and so there is a close relationship between successful capacity development and satisfactory management capacity. Conversely, gaps in management capacity can act as a key constraint on the effectiveness of capacity development programs.

There are numerous factors that contribute to gaps in management capacity in developing countries including:

- the sheer volume of issues to which managers must respond;
- competing priorities outside of work (family and community obligations, security issues, etc);
- a lack of exposure to good management practices;
- a lack of incentives and feedback to reward good management practices (or the existence of perverse incentives that encourage poor management practices like information hoarding);
- external pressures from, for example, the fluid political environment, including ministerial reshuffles, or inexperience or incompetence in other parts of the bureaucracy;
- difficulties in recruiting and retaining high calibre staff who could progress through the ranks into management roles; and
- a lack of systems to support good management (such as recruitment, appraisal, security and ICT systems).

The centrality of effective management for successful capacity development implies that, where possible, supporting improved management practices should be a priority for advisers. For example,

in cases where one-on-one mentoring or executive coaching are possible and likely to be fruitful, this should be pursued. Another strategy may be to support departments to develop a management and leadership course for mid-level managers with assistance from local and international specialists.

There are significant limits, however, on how much advisers can do to address management weaknesses, not least because several of the constraints on management capacity noted above are beyond the control of advisers. As a result, these capacity gaps need to be accepted as a fundamental part of the working environment that, whilst susceptible to gradual improvement, will remain an obstacle and challenge for a considerable period.

One implication of this is that advisers will frequently need to make careful judgments about how much they fill the ‘management capacity gap’. We address the general issue of when to step in and ‘do the work’ in a later section.

A further implication is that advisers (and external evaluations) need to be realistic about what can be achieved. Without managers who are able to send signals to staff about priorities, expected performance and even basic standards of conduct, there is a limit to how much advisers can achieve (in terms of both capacity development and policy outcomes). This does not imply that capacity development will be ineffective: rather, it means that there are limits to what can be achieved and that many of the most important improvements will only occur over a timeframe of decades, not years.

## Relationships and the role of the adviser

The effectiveness of capacity development advisers is critically dependent on the strength of the relationships they have with their counterparts. For team leaders and senior capacity building advisers, relationships depend on maintaining a regular dialogue with the senior management of the host institution. For advisers who are matched with individual counterparts (as is the case for Treasury’s capacity development programs), the immediate relationship will be with the counterpart and their team. But relationships are likely to be equally important for other counterpart models (such as those that match advisers with a team or organisation), since advice is only influential if it is delivered to a receptive audience.

At times there can be formidable obstacles to maintaining strong relationships including, for example:

- Relationships may be affected by cultural differences, particularly in relation to communication styles, and also attitudes towards appropriate behaviour in a work context, including fraudulent or corrupt behaviour.
- Advisers and counterparts may have fundamentally different perspectives on their work, including what they hope to achieve, their level of commitment and their conception of what represents a good outcome.
- Possible tensions between the national interests of the counterpart country and the adviser’s country that may arise if there is ambiguity in the adviser’s role as an Australian government official working inside a foreign government department.
- Establishing new relationships will be affected by the quality of previous relationships and also the perception of some counterparts of the short-term nature of the relationship.

The foundation of an effective working relationship between advisers and counterparts is to develop and ideally document clear expectations, whilst leaving enough flexibility for the relationship to

evolve naturally. If possible, the starting point should be to clarify the counterpart's understanding of their responsibilities and what the adviser's role might be. This role may, in different circumstances, encompass one or more of the following scenarios:

- Advisers do the work and hope that capacity will be developed through exposure to the exhibited professional behaviours.
- Advisers design and control the approach, but try to engage local counterparts through consultation, participation, on-the-job training, and other measures (the 'direct approach').
- Advisers work within developing-country processes, building on local motivations and facilitating change (the 'indirect approach').<sup>8</sup>

A mix of these approaches is likely to be required at any time, depending on the complexity of the task and the aptitude of the staff involved. However, it will usually be appropriate to have an understanding of the adviser's 'default role' such that any variations from that role should be agreed between advisers and counterparts on a case-by-case basis. In particular, a discussion about the adviser's role should also help to establish when an adviser may intervene to assist with the work of the counterpart or their team (see following section for further discussion). Over longer periods (perhaps three to five years), improvements in team capacity should lead to a gradual shift in the emphasis on these different roles away from doing the work and towards the indirect approach. (At times, however, a reverse shift may also be appropriate if, for example, a series of staff vacancies results in a decline in team capacity.)

In addition, there are a number of basic protocols that advisers and counterparts may wish to agree upon in early on in the relationship. We have formulated a series of questions that advisers and their counterparts may find useful. They are set out in full at Attachment B; the key areas they address are as follows:

- Adviser participation in external and internal meetings
- Sharing of and access to information, including files, records and email correspondence
- External engagement by advisers, with or without counterparts present
- Degree of adviser involvement in clearance processes and feedback to staff
- Adviser involvement in team tasks – selective or comprehensive
- Degree of adviser involvement in management or administrative tasks
- Work behaviours – both inappropriate work behaviours that should be avoided and desired work behaviours that advisers should consciously model and reinforce
- Joint planning and reporting on the progress of capacity development activities
- Reporting by the adviser back to the Australian government

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<sup>8</sup> These roles are drawn from Bolger (2008, pp100-101), who cites correspondence with Peter Morgan as the original source.

Where possible, any such protocols should retain some flexibility to allow for, amongst other things, a review of initial judgments about how much involvement advisers should have in different tasks. In other words, the protocols should be a means of creating an ongoing, open dialogue about how to find the right balance in the relationship.

There are several other fairly straightforward steps that we also found helpful in developing effective relationships with our colleagues. These included training on cross-cultural sensitivity prior to departure and attending capacity development courses with our counterparts once we had been deployed. Some language training can be extremely helpful to establish a rapport – whilst English is the official language in both PNG and Solomon Islands, much office chatter reverts to Tok Pisin or Solomons Pijin. Similarly, it never hurts to share a little about your background and family, take interest in the country you are in and to participate in the local community (whether that be through art, music, history, travel, sport or religion). For both us, part of what made our deployments so enjoyable was our participation in activities like umpiring AFL games, teaching at the University of PNG, playing local sport, supporting local charities, and preparing a guidebook on treks in Solomon Islands. Finally, it is important not to rely too heavily on one relationship since personnel inevitably change.

## When to intervene and when to ‘let things fall over’

There are distinct advantages to long-term deployments (twelve months or longer) in terms of establishing relationships, diagnosing organisational weaknesses, reinforcing capacity development achievements and seizing opportunities when they emerge. However, a key risk of long-term deployments is that advisers may crowd out local capacity, diminish local ownership and hence undermine capacity development objectives by creating increased dependency upon advisers.

We were both very conscious that, at times, we took a ‘hands on’ role as advisers and thus worried about the risks that this involved. One solution that is often mentioned is to ‘let things fall over’ in order to allow management and staff to learn from failures (unquestionably a valuable process in any organisation). Whilst this idea has superficial appeal, we saw a number of risks and found little guidance, either at the time or subsequently, to help advisers to make judgment about when to get involved (and do part of the task themselves) and when to step back and monitor the consequences. This section is our attempt to spell out some of the issues and provide some suggestions for the scope and limits of constructive non-intervention.

## What does ‘letting things fall over’ or ‘non-intervention’ mean?

The phrase ‘let things fall over’ seems unhelpful since it suggests that advisers can identify discrete, one-off tasks that will either succeed or fail. In practice, while there are some process-related functions of economic policy agencies that could fit this characterisation (for example, the production of budget documents, monthly financial reports or a debt issuance process), much of the work does not. Instead, economic policy typically involves ongoing, evolving projects that involve longstanding relationships and where the output at each stage may be produced to a lesser or higher standard.

We think it is more meaningful to talk about advisers ‘allowing work to fall below acceptable standards’. Clearly, judgments will always be necessary in determining what is an acceptable standard and, in some cases, counterparts and advisers may have different views. It may help, at least, to diagnose the various ways that work may be below acceptable standards, such as:

- Failure of analysis or presentation: the quality of research, analysis or presentation is substandard;

- Failure of time management: a brief or submission is delivered too late to be influential;
- Coordination failures: different parts of the agency or government deliver conflicting messages, or fail to recognise linkages between related workstreams; or
- Failure of quality assurance: clearance processes fail to identify that a product omits key issues or contains material errors.

‘Intervention’, in its broadest sense, may refer to situations where advisers identify the risk of one of these potential failures eventuating and then choose to contribute to the substantive work in some way in order to reduce that risk. In the discussion that follows, we assume that the adviser has judged that the risk is very likely to eventuate without intervention, perhaps due to time or resource pressures. In other circumstances, the appropriate course of action will be for advisers to discuss the potential risks with counterparts and then allow them to take whatever steps they judge necessary in response.

### Create a constructive environment by clarifying roles and expectations

It will help to create a constructive environment for non-intervention if advisers and counterparts set clear expectations regarding substandard work and quality control. For example, some counterpart managers believe that part of the role of advisers is to, in effect, provide a ‘back stop’ that prevents acute problems from emerging. At the same time, Treasury’s capacity development programs have always asked advisers to strike a balance between the twin objectives of improved capacity and good policy outcomes. Thus, ‘back stop’ arrangements may well be appropriate as long as it is clear that there are limits to how they will be applied such that, in some circumstances (consistent with the points outlined below), advisers will deliberately refrain from providing quality control or other input.

Wherever possible, expectations about the level of involvement (or ‘intervention’) by advisers should be based on guidance from the senior management of the host institution. This reinforces the importance, noted elsewhere, of team leaders and senior capacity development advisers maintaining a regular dialogue with senior management.

Once advisers make a decision to intervene to improve the standard of an output, this decision should, where possible, be made in conjunction with counterparts and involve feedback afterwards, ideally in accordance with pre-agreed protocols for how such situations might be handled.

### Assess the risks of intervention and non-intervention

Intervention will be less appropriate when it will greatly increase the risk of dependency on advisers or when it will result in other ongoing problems, such as damaging relationships with counterparts. Equally, intervention will be less appropriate when the risks of poor policy outcomes are low. These risks probably have to be assessed on a case-by-case basis.

### Assess the potential for counterparts to learn from mistakes

Non-intervention will be more attractive if there is clear potential for management and staff to recognise and learn from the consequences of the substandard work (or at least there is potential to receive negative feedback from outside the organisation, such as from ministers, parliament, the media or other stakeholders). The potential to learn from failure depends, in part, on management capacity. In some cases, management weaknesses (especially lack of appropriate accountability from supervisors) may be so great that there are few signals to staff that their work is substandard, let alone

any incentives to redress this. If it is also the case that there is limited negative feedback from external stakeholders (or limited impact of such feedback), there may be little benefit in allowing work to remain below acceptable standards.

### Contain any negative side-effects of non-intervention

Non-intervention by advisers may have negative side-effects for aspects of team capacity, especially ‘soft capacities’ such as team morale, credibility and motivations. Sometimes this impact can be easily measured in terms of a decline in the standard of subsequent output, or even work attendance. Similarly, substandard work may damage a team’s credibility to a point where stakeholders stop engaging with the team, thereby undermining officers’ ability to develop and sustain effective stakeholder relationships.<sup>9</sup>

As a result, it is important to recognise that in pursuing one capacity development objective (reducing dependency by not intervening), there is likely to be a trade-off with other capacity development objectives. In particular, if the team’s ‘soft capacity’ in areas such as morale or credibility is very weak, we believe that building these facets of capacity should be given priority over concerns regarding dependency and learning from failure.

### Ensure that advisers have incentives not to intervene

Deliberately allowing work to remain below acceptable standards will usually cut across the natural instincts of advisers (and, as noted above, it may also conflict with counterparts’ expectations). In addition, advisers may face strong incentives to intervene in cases where capacity development programs are assessed largely on the basis of the organisation’s outputs. Deciding not to intervene must be a deliberate decision that, where appropriate, should be rewarded. Typically, advisers are rewarded for high quality outcomes (both policy and capacity) in their initial role selection and via in-country assessments. Thus, team leaders and performance evaluators should try to establish a mechanism for formally acknowledging such decisions, evaluating the consequences and lessons learnt and then, where appropriate, reward advisers through their performance appraisals and otherwise.

### The challenge of measuring progress

A persistent challenge that we wrestled with was how to measure our progress, and that of our counterparts. Our main vehicle for regular assessments was an annual work plan that we prepared jointly with our counterparts and that we jointly reviewed semi-annually. Most of the details of the work plans and how we reported on progress were left to our discretion. This gave us valuable flexibility but little guidance on whether our measures were robust and informative or merely self-serving. While we were principally focused on regular, ongoing monitoring during our tenure as advisers, many of the issues that we faced are also pertinent for the independent, in-depth reviews that were conducted every three to five years.

The first difficulty is that some aspects of capacity development do not readily lend themselves to objective, quantitative measurement. We suspect that this is true of capacity development generally, not least because of the challenges of measuring improvements in ‘soft capacities’ such as team mission, values, trust and morale. The difficulty of measuring progress may be especially great in the case of economic policy agencies where their own outputs and performance are also not readily

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<sup>9</sup> On the other hand, if relationships are only sustained due to the intervention of advisers and this is apparent to all then the relationship may only exist in substance between the adviser and the stakeholder. Thus, as always in questions of when to intervene, careful judgment is necessary.

susceptible to objective, quantitative assessments. (This is as true for the Australian Treasury as it is for any of our counterparts in the Asia Pacific.)

Departments whose function is primarily focused on implementation and administration may be in a better position to develop quantitative measures of performance that could also underpin measures of capacity improvement. By contrast, evaluating the quality of policy advice is often highly subjective and so assessing the contribution of capacity development efforts to any improvements in policy advice will typically also be subjective and qualitative.

The fact that evaluations must depend on subjective, qualitative assessments does not mean that it is pointless to attempt to measure the performance of economic policy agencies or the progress of capacity development within them. On the contrary, the very difficulty and subjectivity of measuring progress means that it is particularly hard for advisers and their counterparts to know if capacity development efforts are well-directed and, if so, effectively implemented. Consequently, it may be even more important to develop robust monitoring frameworks for capacity development in economic policy agencies than for other aid programs.

A second difficulty is that it is hard to assess the *sustainability* of capacity improvements because capacity, especially for teams and organisations, does not steadily increase, plateau or decrease. Instead, capacity will naturally ebb and flow in response to internal changes (such as turnover of staff or management) or external pressures (such as changes in the business environment or a ministerial reshuffle). Even highly effective capacity development activities may not prove resilient to significant internal or external changes. This has implications for measuring the performance of capacity development advisers: a decrease in capacity does not necessarily represent failure and mere maintenance of capacity may constitute success. Of course, it also follows that improvements in capacity may occur independently of or even despite the efforts of advisers.

A third issue is that the ultimate 'success' of a capacity development program depends on both actual capacity and the required or expected level of capacity, where changes in one often lead to changes in the other.<sup>10</sup> As a team's capacity increases, the demands imposed on it tend to increase also. In other words, the goalposts will shift over time such that even if the capacity improves over time (albeit with ebbs and flows), the gap between desired and actual capacity may only decline gradually. For example, for many years, the main responsibility of the Solomon Islands Budget Unit was to produce an accurate record of planned and actual expenditure. In the late 2000s, a new team was established to review and provide advice on expenditure proposals – a standard budget review function but one that had not, until that time, been possible due to existing capacity constraints.

Measuring the capacity gap is important for determining whether a capacity development program was 'successful' (and the possibility of exit). But it is also important at earlier stages. A program that achieves good progress should be able to adjust the role of advisers from direct, hands-on methods to more indirect, mentoring approaches. However, such a change should be made once there is a narrowing in the 'capacity gap', which depends as much on the expectations for counterpart teams as it does on improvements in capacity that they have already made.

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<sup>10</sup> The expected level of capacity and the 'capacity gap' are important for 'forward-looking evaluations' that seek to determine, for example, the potential for exit or a significant change in the design of a capacity development program. They are less inappropriate for 'backward-looking evaluations' that assess the effectiveness of capacity development efforts to date. In that case, the starting point and subsequent obstacles or opportunities should be the main yardstick.

## Political economy: the interaction between capacity development and incentives<sup>11</sup>

Incentives matter for both the development and utilisation of capacity. In addition, economic policy agencies (and, by extension, capacity development programs that support them) have a role in shaping society-wide incentives that impact on development outcomes generally. For both these reasons, incentives are highly relevant to capacity development.

Incentives can come in many forms including, for example, financial (wages, etc), professional (promotion, career advancement, other recognition), social (expectations of family and community), bureaucratic (work norms and hierarchies) and political. Within an economic policy agency, many of the 'internal incentives' for staff also relate directly to aspects of that agency's capacity. These incentives include: performance appraisal systems, processes for recruitment and promotion, pay structures, non-remuneration rewards and recognition, and a sense of purpose and camaraderie in the workplace. Capacity development advisers will typically interact with and attempt to shape these incentive systems as part of their work.

The development of organisational capacity is also heavily dependent on 'external incentives' determined by politicians, stakeholders, family and communities, and the public generally.<sup>12</sup> Unlike the internal incentives mentioned above, there is only limited scope for economic policy agencies or their capacity development advisers to influence or adjust these incentives. (An important exception is the occasional opportunity available to senior management to shape the agency's relationship with a new minister.) Thus, in general, the prevailing incentives acting on economic policy agencies and their ministers, staff and stakeholders, should be recognised as a central constraint on what capacity development advisers and programs can realistically achieve.

External incentives impose a further constraint on the effectiveness of capacity development efforts: not only do incentives stimulate or retard the *acquisition* of greater capacity, they also have the same effects on its *utilisation*. This is critical to the ultimate objective of capacity development programs: that government institutions, through advice to their ministers and the administration of government programs, are more effective in contributing to poverty reduction and improved public wellbeing. Organisational capacity is necessary for improved performance but it is clearly insufficient if such capacity is either under-utilised or misdirected due to inappropriate incentives.

In summary, in countries that do not have a strongly alignment of interests between the public, political leaders and the bureaucracy, capacity development will be particularly challenging (and may, in some cases, be inappropriate) due to the disincentives for developing and utilising capacity to the benefit of the public.

A countervailing consideration for economic policy agencies, however, is that they also have an important role in shaping society-wide incentives. They do this, for example, through macroeconomic, budget, taxation and debt management policies that aim to improve transparency of key data, strengthen accountability for government decisions, or limit the scope (or establish a sound structure) for discretionary decisions on expenditure or tax concessions. Similarly, microeconomic and structural reforms will often involve large shifts in economic power from protected interests,

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11 We acknowledge Graham Teskey and Rebecca McLaren, who prompted us to think more about the importance of incentives for capacity development.

12 The distinction between 'internal' and 'external' incentives is not intended to be precise. Incentives within an organisation will inevitably be influenced by broader factors and vice versa.

with resulting changes in future political incentives. By extension, capacity development in economic policy agencies has a role in shaping these broader, society-wide incentives.

Given the importance of incentives for development outcomes generally and for the development and utilisation of organisational capacity, it may be appropriate for advisers to reflect on the incentives that impinge on their work. From this base, advisers can explicitly record the aspects of their activities that seek to realign the 'internal incentives' or 'external incentives' that impinge on capacity development itself or on development outcomes more generally.

## Capacity development skills and techniques

Treasury officers bring important skills and experience to the role of capacity development in economic policy agencies however capacity development also involves specialist skills that are less likely to be developed in a Treasury context. As such, this section proposes that, where appropriate, Treasury advisers undertake training in capacity development skills early in their deployments.

This section also provides some examples of capacity development techniques that we adopted or that were used by other deployees from the Australian Treasury. Our aim is to record some thoughts and approaches that others may find useful, and perhaps prompt further efforts to record and refine the techniques that deployees use to strengthen capacity. Whereas most of this paper has focused on organisational capacity and institutional strengthening, a couple of these examples relate to the development of individual capacity. This is, in part, because these examples are more readily applicable to other situations whereas improvements to organisational structures, appraisals systems, or recruitment processes, are more dependent on the organisational context.

## Training for capacity development advisers

At one level, capacity development is 'not unique to aid programs and can be similar to how any organisation might invest in organisational change and renewal' (AusAID 2009, p 1). Such organisational change and renewal is usually the responsibility of management and so the role of capacity development advisers is, to a large extent, to support good management practices. By implication, while it may be sufficient for some advisers to have demonstrated policy and technical skills, at least some advisers should also have a depth of managerial experience.

It is equally true, however, that:

what differentiates capacity development in a foreign aid context is the way it is supported through resources provided from outside the country being assisted; *and the fact that many of the building blocks (skills, systems, resources, etc) are either absent or weak in developing countries.* (AusAID 2009, p 1, emphasis added)

It follows that some of the expertise required to be a successful capacity development adviser in a developing country context goes beyond the management and policy experience gained in the Treasury or other agencies in the Australian Public Service. Consequently, we think that new capacity development advisers would often benefit from additional training, particularly in the first year of their deployment. (While this training could also be conducted prior to deployment, it may be more useful once advisers have had some exposure to the relevant work environment.)

A training program designed to broaden and extend adviser's capacity development skills could include:

- Formal training on adult learning styles such as 'train-the-trainer' courses;

- Possible participation in a 'Community of Practice' for economic governance advisers; and/or
- Possible participation in courses like DFAT's Making a Difference course.

An alternative approach could be to recruit consultants with management and capacity development expertise (especially if that includes experience in developing countries) and then provide them with training on the relevant areas of public policy as needed. While this approach may have merits, it is possible that the risks associated with a relative lack of policy expertise would be at least as great as the risks stemming from a relative lack of capacity development expertise (and would not facilitate ongoing institution-to-institution linkages). In short, our guess is that there is a limited supply of advisers who have substantial economic policy and managerial experience *and* who have dedicated expertise in capacity development techniques. Consequently, as with many organisations that provide ongoing training for staff, it will often be necessary to select advisers with some skills and experience and then provide them training to address any remaining gaps.

### Collecting data and monitoring capacity development performance

Once capacity development priorities have been agreed, it can be challenging for both advisers and counterparts to pursue them conscientiously and consistently in the face of competing pressures. Simple tracking tools can provide a useful discipline to collect data and monitor performance in achieving capacity development objectives.

For example, where we worked in PNG Treasury, the managers expressed a desire for staff to participate more actively in external meetings. We agreed with our management counterparts that this required ongoing monitoring of:

- whether an adviser needed to attend a meeting;
- how much preparation counterparts did before meetings;
- how much advisers participated during meetings; and
- whether advisers provided feedback after meetings to help counterparts improve their participation in future.

We developed a simple spreadsheet tool to track these four issues and used the data to provide reports (initially quarterly, then six-monthly) to our counterpart managers. The tracking tool was an important constraint on the extent of our subsequent participation in meetings and it was also a regular reminder to us to devote extra time before meetings to promote participation by counterparts.

### Using formal workshops or seminars to complement on-the-job training

Formal training workshops or seminars can seem an attractive capacity development activity – there is both strong demand (counterparts often find them interesting and, perhaps, a welcome break from their other work) and strong supply (since seminars often reside within the 'comfort zone' for advisers). In our experience, however, formal training conducted in isolation had only limited impact on future performance. The impact of such training may be much greater if it is used to complement on-the-job training.

For example, a colleague of ours encountered resistance to feedback on policy analysis but found that counterparts were more receptive to discussing policy issues in a workshop. The principles identified in workshops could be used as the basis for future feedback.

Similarly, we noticed common themes that emerged in the feedback we provided on written work. We subsequently incorporated these themes into a series of workshops on writing skills that were tailored to the written work produced in our area. We frequently referred back to the principles and checklists developed in the workshops in future feedback that we provided on written work.

### Feedback on written work — iterative approach

Written advice and reports are, along with quantitative and economic analysis, the bread-and-butter of economic policy agencies. In supporting their counterparts in this work, advisers may adopt an ‘iterative approach’ to providing feedback on written work:

- work with the relevant manager, if possible, to provide guidance on the purpose of the task, its intended length and audience, and the key issues to be addressed;
- the initial iterations focus on general comments on the structure, objective, key issues, and main points of analysis;
- the further iterations seek to improve substantive details; and
- the final iterations adjust the tone and use of language in the document.

In formulating feedback, advisers must be mindful of what is an appropriate (and sustainable) standard of work in that environment rather than seeking to replicate the standard expected in the adviser’s home institution.

This iterative approach should be complemented by careful consideration of how the feedback is provided. For example, it is often important to provide feedback both verbally (to check understanding and allow for discussion) and in writing (to keep a record for future reference by both counterparts and advisers). Of course, as with any feedback, this should include a discussion of what was done well.

Following these steps requires considerable discipline and patience on the part of the adviser (and patience and perseverance on the part of the counterpart!). This iterative approach also requires time and, inevitably, must sometimes be truncated due to time constraints. As is often the case, there is a trade-off between capacity development and achieving results.

### Summary of key conclusions

This paper is our attempt to address issues that we grappled with in our roles as capacity development advisers, such as how to maintain good working relationships with counterparts, whether we were focusing on the right priorities and how to assess whether we were being effective in our work. Our key conclusions are summarised below.

The objectives of capacity development — sustained independent performance and the capacity for self-regeneration — can only be achieved over a long timeframe, in most cases decades rather than years. Incentives are also highly relevant, both for the development and utilisation of capacity (and, in addition, the role that economic policy agencies play in shaping society-wide incentives that impact on development outcomes generally). In this context, achieving capacity development objectives is likely to be complex and challenging. This is certainly true in economic policy agencies.

To best address this challenge, a systematic, strategic approach is essential. We recommend seven steps for adopting such an approach.

- **Take time to establish priorities:** the potential scope of capacity development activities can be very broad so assess the options thoroughly. As part of this assessment, remember to include ‘soft capacities’ (leadership, trust, team identity, values, mission, etc) as well as ‘hard capacities’.
- **Understand the importance of management capacity:** management capacity is a key constraint on, or a key enabler for, capacity development. This means that improving management capacity should be a priority for advisers, where possible. However, there are significant limits on how much can be done to address management weaknesses and so advisers (and external evaluations) need to be realistic about what can be achieved.
- **Effective relationships are critical to the effectiveness of advisers:** For team leaders and senior capacity building advisers, relationships depend on maintaining a regular dialogue with the senior management of the host institution. More generally, the foundation of an effective working relationship between advisers and counterparts is to develop clear expectations, starting with the counterpart’s understanding of their responsibilities and the adviser’s role. In addition, there are a number of basic protocols that advisers and counterparts may wish to agree upon in early on in the relationship.
- **Advisers face difficult judgments about when to intervene and when to ‘let things fall over’:** several considerations may help capacity development advisers with the difficult judgments about when to intervene and do part of the task themselves, and when to step back and monitor the consequences:
  - create a constructive environment for non-intervention by setting clear expectations regarding when advisers may intervene, with the agreement of counterpart management, to address substandard work;
  - non-intervention will be more appropriate when the risks from intervention (in terms of dependency or damage to relationships) are relatively high and when the risks of non-intervention (for important policy outcomes) are relatively low;
  - non-intervention will be more attractive if there is clear potential for management and staff to recognise and learn from the consequences of the substandard work;
  - be mindful of the trade-off between one capacity development objective (reducing dependency by not intervening) and other capacity development objectives; and
  - ensure that advisers have incentives not to intervene, or at least no disincentives.
- **Measuring progress is important but difficult:** there are several reasons why measuring the effectiveness of capacity development is particularly difficult:
  - Some aspects of capacity development do not readily lend themselves to objective, quantitative measurement, especially for improvements in ‘soft capacities’ such as team mission, values and morale.
  - It is hard to assess the *sustainability* of capacity improvements because capacity does not steadily increase or decrease; rather, it will naturally ebb and flow.

- ‘Progress’ depends on both actual capacity and the required level of capacity: increases in the former often lead to increases in the latter such that the ‘capacity gap’ between the two may only decline gradually.
- **Think about the interaction between incentives and capacity development:** incentives matter for both the development and utilisation of capacity. In addition, economic policy agencies have a role in shaping society-wide incentives that impact on development outcomes generally.
- **Recognise that capacity development requires specialised skills and expertise:** some of the expertise required to be a successful capacity development adviser in a developing country context goes beyond the experience gained in the Treasury. Consequently, new advisers may benefit from specific training in capacity development skills.

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## ATTACHMENT A: SCOPE OF POSSIBLE CAPACITY DEVELOPMENT PRIORITIES

### Staff skills, training and development

- General public service skills: written communication, oral communication, teamwork, meetings and stakeholder relationships, time management, ICT and email, research
- Policy analysis skills: general problem solving skills; broad economic, financial, accounting, or legal skills; and technical skills on specific policy areas
- Basic management skills: staff supervision and development, workflow management, prioritisation and planning, clearance and quality control, internal budget management

### Divisional and Departmental systems and processes

- Staffing: recruitment and induction processes, performance appraisals and management
- Knowledge management: paper and electronic filing, use of file notes, archiving old documents, induction and handover arrangements, use of Departmental correspondence registers
- Planning and prioritisation: Corporate Plan, annual work plan, planning days, performance reporting
- Internal communications: branch, divisional and/or management meetings, SOP notes
- Training and career development: training needs analysis, internal training programs, links to performance appraisals
- Media and Parliamentary monitoring: procedures to ensure management and staff are aware of emerging issues and relevant research or commentary
- Security procedures: procedures to protect physical security, property and confidential information
- Consultation processes: processes for consultations on both on specific proposals and to get general feedback from key stakeholders

### 'Soft capacity'

- Team identity and a shared sense of mission
- Team values and commitment to basic standards of professional conduct (eg, work attendance, respect for colleagues and supervisors, sobriety at work, respect for property of team or colleagues, conforming to basic dress codes)
- Team morale, ambition and a sense of what is possible
- Leadership
- Legitimacy, credibility and reputation

- Capacity to adapt to changing circumstances
- Capacity to strengthen partnerships through collaboration, networking or otherwise

### Broader public service systems and processes

- Cabinet processes
- Legislative processes
- Medium- and long-term development plans
- Budget processes
- Medium-term fiscal and debt strategies
- Public Service General Orders

## ATTACHMENT B: BUILDING RELATIONSHIPS — POSSIBLE PROTOCOLS FOR ADVISERS AND COUNTERPARTS TO CONSIDER

- *External meetings:* May advisers ever attend external meetings without a counterpart present? Which external meetings should advisers attend? And if they attend, how much should they participate (for example, only if invited to do so by counterpart)?
- *Internal meetings:* Should all advisers attend all internal team meetings (branch, divisional or management meetings)?
  - Protocol A: yes (attend all). Advisers and counterparts agree that adviser input is important for team meetings to be successful.
  - Protocol B: sometimes (attend some). Adviser and counterparts agree that advisers will attend team meetings occasionally to discuss specific issues. In other cases, management will share the agenda beforehand and brief advisers afterwards on the outcomes.
  - Protocol C: no (attend none). Advisers and counterparts agree that adviser input is not required for team meetings. Management may share the agenda beforehand and brief advisers afterwards on the outcomes.
- *Access to and sharing of information:* Will advisers have access to all of the team's files and records or, if not, how will access to relevant records be managed? Should advisers expect to be copied on all relevant correspondence and should they expect to have access to all relevant documents produced by counterparts? May advisers ever send emails or respond to emails with colleagues outside of the team (or the Department)?
- *External engagement by advisers:* How much (if at all) will advisers discuss work issues with other advisers (or just other officials) without counterparts present? What protocols should be followed an adviser receives a phone call or email from: another adviser, officers in other government departments, donor partners, etc? Should the query always be referred to the relevant counterpart? What if key counterparts are absent? What if an adviser meets other advisers or officials in a social context?
- *Feedback (and potential clearance) to staff:* For advisers whose counterparts are managers, when (if ever) may advisers provide feedback or clearance directly to staff, rather than through the counterpart manager?
- *Adviser coverage of team tasks:* Should advisers try to be involved or aware of all tasks in the Division (that is, shadowing the role of management) or just selected areas (as agreed with management)?
- *Adviser involvement in management tasks:* How much (if at all) should advisers assist with management tasks such as recruitment, work plans, planning days, the Divisional budget, asset management, internal training guidelines, induction pack, performance appraisals, etc?
- *Adviser involvement in administrative tasks:* How much (if at all) should advisers assist with administrative tasks?

- *Cultural sensitivity:* Are there any work behaviours that may be inappropriate in a different context (for example, use of offensive language, speaking loudly, interrupting others)?
- *Modelling good work behaviours:* Are there any work behaviours that advisers should consciously model and reinforce (for example, work attendance and punctuality, informing colleagues of leave or absences, sharing information, supporting meritocratic processes over 'regionalism', 'ageism', sexism or other forms of discrimination, reinforcing the role of the public service to provide sound advice to the Government of the day)?
- *Joint reporting on capacity development:* What planning and reporting is expected of advisers and how will counterparts be involved? How does this balance a capacity development outcomes and substantive policy outcomes? How will such planning and reporting be integrated into similar internal requirements within the counterpart agency? Will reports require joint sign-off?
- *Reporting to the Australian government:* What reporting obligations do advisers have back to the Australian Treasury or other Government Agencies? If counterparts are working on issues that are sensitive to relations with Australia, how will advisers ensure that they respect the privacy of counterparts and the sensitivity of government information?

