

## 2 BASIC DEFINITIONS AND CONCEPTS

The term *capacity* has many different meanings and interpretations. Much depends on who uses it and the context in which it is used. To begin with, capacity development as a concept is very closely related to training, human resources development, knowledge acquisition, the learning organisation and other concepts. The development of the individual and the entity within which the individual works is central to capacity development.

The failure of many projects and programmes that deal with capacity can often be attributed to the narrow view of capacity that had been used. For example, complex change initiatives such as, say, a change in the way a particular government service is delivered, often concentrates capacity development to individual training needs and organisational development. Often missed are important dimensions of capacity at the policy or legislative levels, or in supporting processes and regulations. If these other levels and dimensions of capacity are not addressed, then the chances of successfully implementing sustainable capacities are diminished. Therefore, capacity development must go beyond the level of the individual and the entity to consider the broader environment or system within which they function. These different levels contain **dimensions of capacity** which are key to ensuring that capacities at all levels are both addressed as well as properly utilised and sustained.

### 2.1 BASIC DEFINITIONS

The UNDP, as with many other organisations, has evolved a relatively explicit definition of capacity development. In any use of the term, capacity assessment and development are integral to most management methodologies associated with programmes, projects, change, performance, strategic management and planning that deal with people, organisations and the broader systems within which they function.<sup>4</sup>

#### [1] What is Capacity?

Capacity is defined as the ability of individuals and organisations or organisational units to perform functions effectively, efficiently and sustainably. This definition implies that capacity is not a passive state but part of a continuing process and that human resources are central to capacity development. The overall context within which organisations undertake their functions are also key considerations in capacity development. Capacity is the **power** of something (a system, an organisation, a person) to perform or to produce. Capability, a closely allied term, can be seen as synonymous with capacity, or simply as undeveloped or unused capacity.

<sup>4</sup>Note that capacity assessments may be carried out as a distinct initiative, outside of such management methodologies. This is sometimes referred to as **capacity mapping**, the discipline of assessing all the dimensions of capacity wherever you are or at whatever entry point is used. Capacity mapping does not necessarily need to lend itself to programme or project planning or the preparation of a programme or project document. It may be used simply to assess requirements, determine feasibility or support research.

**THIS CHAPTER presents basic definitions on the concept of capacity and discusses capacity in a systems context. For each level in the system, separate dimensions of capacity are identified. We then look at “entry points” for capacity initiatives, and how to address such initiatives in a strategic management framework. Some final comments are made on capacity and change management. The annexes contain detailed supporting information.**

## [2] What is Capacity Development?

Capacity development<sup>5</sup> is a concept which is broader than organisational development since it includes an emphasis on the overall system, environment or context within which individuals, organisations and societies operate and interact (and not simply a single organisation). In the case of development programmes, it includes a consideration of all key factors which impact upon its ability to be developed, implemented and the results to be sustained. Of special concern to development planners and to situations where there are limited resources is the need to build on what exists—to utilise and strengthen **existing capacities**, rather than to start from scratch. In most situations, the past or what already exists cannot or should not simply be negated.

## [3] What is Capacity Assessment?

Capacity assessment is a structured and analytical process whereby the various dimensions of capacity are assessed within the broader systems context, as well as evaluated for specific entities and individuals within the system. Again, in adapting these guidelines, special emphasis should be given to utilising existing capacities.

## [4] Capacity vs. Institutional Development

The term **capacity development** is often used in conjunction with or interchangeably with the term **institutional development**. However, for the purposes of these guidelines, they are distinct. Capacity development may be carried out at the level of an institution where an institution is defined as a “... **pattern of behaviour that is valued within a culture.**”<sup>6</sup> Institutions are often seen as aggregations of organisations, examples of which would include government and banking. Institutions may be seen as a subsystem within a broader system (e.g., government within broader society).

<sup>5</sup> This is not much different than the OECD Development Assistance Committee (DAC) definition of Capacity Development, adapted by CIDA and others, as “... the process by which individuals, groups, organisations, institutions and societies increase their abilities to: (1) perform core functions, solve problems, define and achieve objectives; and (2) understand and deal with their development needs in a broad context and in a sustainable manner.”  
This definition goes on to define **core capacities** of an organisation, or community, or sector, (or system) as consisting of:

- ▲ defining, analysing the environment or overall system
- ▲ identifying needs and/or key issues
- ▲ formulating strategies to respond to or meet needs
- ▲ devising or implementing actions; assembling and using resources effectively and sustainably
- ▲ monitoring performance, ensuring feedback, and adjusting courses of action to meet objectives
- ▲ acquiring new knowledge and skills to meet evolving challenges

As will be seen later on in these guidelines, this definition of Capacity Development by DAC has much in common with (or has in fact been based upon) fundamental concepts of strategic management.

<sup>6</sup> Elliot Berg in “Rethinking Technical Cooperation: Reforms for Capacity Building in Africa” addresses, through extensive research, these differences succinctly. He writes “**organisations form part of the fabric of institutions but are not institutions themselves. ... institutional development means more than just structural or functional changes of an organisation. It involves fundamental social change, the transformation of patterns of behaviour ...**” (P. 60-61).

## 2.2 DIMENSIONS OF CAPACITY IN A SYSTEMS CONTEXT

The diagram (right) graphically illustrates that capacity issues can be analysed at three levels. Often, capacity issues are first addressed at the individual level, then at the organisational or entity level. However, as noted above, capacity must be understood at the systems level as well. By definition, a system is a regularly interacting or interdependent group of items forming a unified whole. This can apply equally to the human world as it does to the physical world. Capacity is defined here in a systems context where a set of entities operate toward a common purpose and according to certain rules and processes (more on this later). Let's look at each of these three levels in more detail.

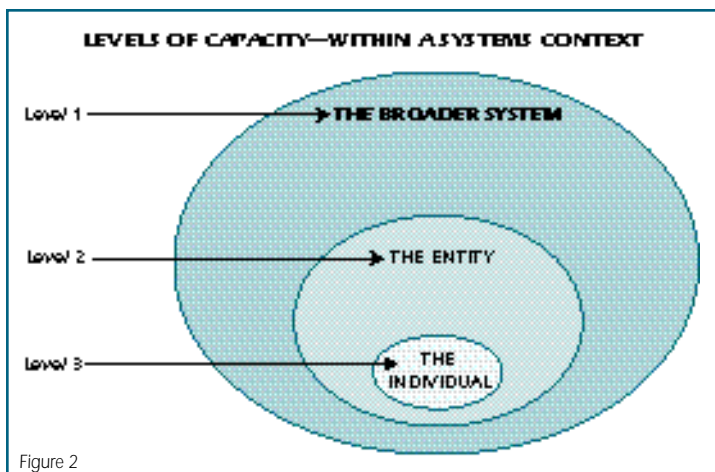


Figure 2

### [1] Level 1—The System

The highest level within which capacity initiatives may be cast is the system or enabling environment level. Other methodologies often refer to this level as the “situation,” the “market,” the “action environment,” or simply the “environment.” For development initiatives that are national in context (e.g., governance, environmental programmes, poverty alleviation, market economy transition, and democratisation), the system would cover the

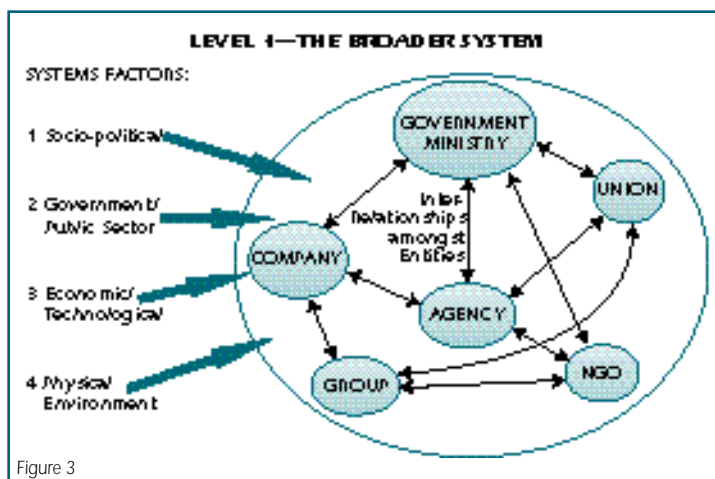


Figure 3

entire country or society and all the subcomponents that are involved. For initiatives at a sectoral level, the system would include only those components that are relevant (e.g., a rural development or decentralisation programme).

This level includes both formal and informal organisations within the defined system. Invariably, many organisational entities are involved in the

broader system, with perhaps one or two being defined as the key or leading organisation for the defined initiative. The nature of the relationships amongst these defined entities are key areas of attention. For example, a capacity initiative (e.g., decentralisation) may result in restructuring and implementing alternative methods of service delivery, requiring a more complex interaction of delivery and regulatory entities.

Capacity assessments at the systems level can be made according to relative strengths and weaknesses, as well as opportunities and threats (SWOT). As noted in the diagram, such an assessment can also be guided according to logical groupings of factors, which relate to the different dimensions within the system. This is discussed in more detail in **Part II** of these guidelines.

### Dimensions of Capacity at the Systems Level

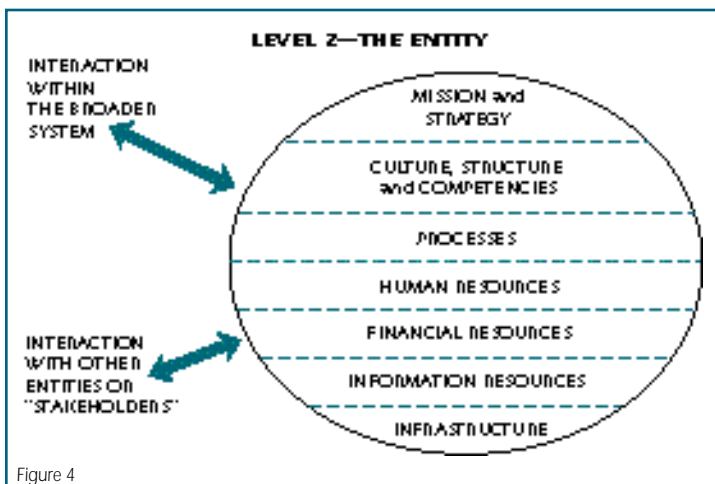
- ▲ **Policy Dimension:** systems have a purpose, they exist to meet certain needs of society or a group of entities. Also included are value systems which govern the entities within the system.
- ▲ **Legal/Regulatory Dimension:** includes the rules, laws, norms, standards which govern the system—and within which a capacity initiative is to function.
- ▲ **Management or Accountability Dimension:** defines who manages the system and which entities or stakeholders function within the system. From a capacity development perspective, this would identify who is responsible for potential design, management and implementation, coordination, monitoring and evaluation, and all other related capacities at the systems level.
- ▲ **Resources Dimension:** (human, financial, information) that may be available within the system to develop and implement the programme and/or the capacities.
- ▲ **Process Dimension:** the inter-relationships, interdependencies and interactions amongst the entities, including the fact that these may comprise subsystems within the overall system. This includes the inter-relationships amongst entities in terms of the flow of resources and information, formal and informal networks of people, and even supporting communications infrastructures.

## [2] Level 2—The Entity<sup>7</sup> or Organisation

Whether an entity is a formal organisation (such as a government, or one of its departments, ministries or agencies), a private sector operation, or an informal organisation (e.g., a community based or volunteer organisation), there are typically several dimensions of capacity which need to be assessed and developed (Figure 4).

Unlike traditional capacity development and organisational strengthening which focuses their development resources almost entirely on human resources, processes and organisational structuring matters, the more successful methodologies, examine all dimensions of capacity at the entity level, including its interactions within the system, usually with other entities, “stakeholders,” or clients.

This applies to organisational subunits within the entity (e.g., divisions, sections, units, work-groups and teams, etc.).



### Dimensions of Capacity at the Entity Level

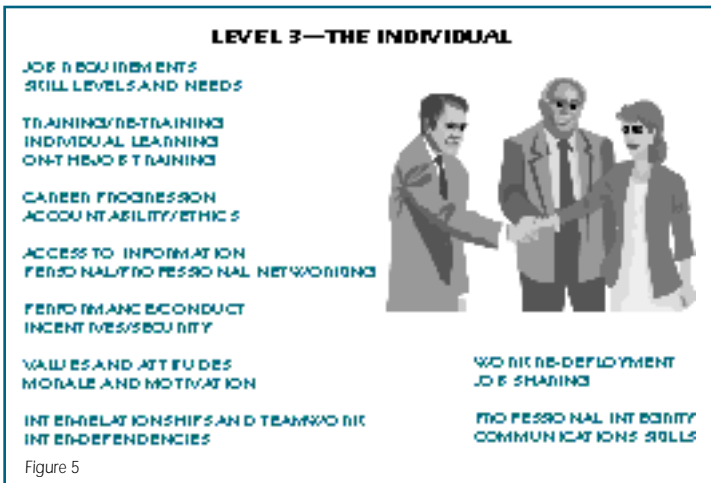
- ▲ **Mission and strategy:** include the role, mandate, and definition of products/services; clients/customers served; interactions within the broader system and “stakeholders”; the measures of performance and success; and the presence of core strategic management capacities.
- ▲ **Culture/Structure and Competencies:** organisational and management values, management style, and standards, organisational structures and designs, core competencies.
- ▲ **Processes:** (internal and external to the entity) supporting such functions as planning, client management, relationships with other entities, research/policy development, monitoring and evaluation, performance/quality management, financial and human resources management, etc. Process can be both internal and external.
- ▲ **Human resources:** the most valuable of the entity's resources and upon which change, capacity and development primarily depend.

<sup>7</sup>For the purposes of these guidelines, the term *entity* is used synonymously with the term *organisation*, where the term *organisation* is defined as “... the rational coordination of activities by a group of individuals with the aim of achieving a common purpose” (taken from E. Schein, “Organisational Psychology,” Prentice Hall, 1979). In this sense, an entity may be a small unit such as a division or department among many within a larger entity, or it may be a large unit such as a Ministry within a government. As long as it fits with the definition, it may be classed as an entity.

- ▲ **Financial resources:** both operating and capital, required for the efficient and effective functioning of the entity.
- ▲ **Information resources:** of increasing importance, and how these resources (all media, electronic and paper) are managed to support the mission and strategies of the entity.
- ▲ **Infrastructure:** physical assets (property, buildings and movable assets), computer systems and telecommunications infrastructures, productive work environments

### [3] Level 3—The Individual

As noted, a major dimension of capacity is at the individual level—people, including small interpersonal networks of individuals. This covers individuals both within entities involved in the management and delivery of an initiative, as well as those who are beneficiaries or are otherwise impacted by the initiative (could be specific client groups, segments of society, or the civil population at large, depending on the initiative).



Capacity assessment and development at the third level are considered to be the most critical. This level (see Figure 5) addresses the individual's capacity to function efficiently and effectively within the entity and within

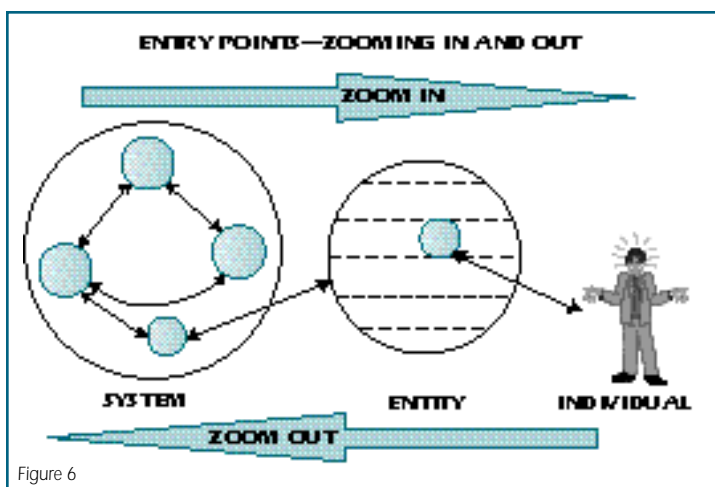
the broader system. Capacity assessments are designed according to the individual's function and relationship to the entity: executive, management, supervisory, professional, and administrative. The success or viability of a capacity initiative is invariably linked to the capacity of leadership and management.

Often, capacity assessments of individuals are based on an established "job description" or some other format which lays out the performance/skills requirements of the position and the individual filling that position or performing a function/activity according to alternate methods of engaging the services of the individual—a performance contract. This is combined with a skills assessment of the individual. The assessment will demonstrate any "capacity gaps." Subsequent training and development plans can then be prepared to address these gaps. Increasingly, the dimensions of accountability, performance, values and ethics, incentives and security are becoming ever more important in individual level capacity assessments and technical assistance development programmes.

## 2.3 ENTRY POINTS AND ZOOMING IN/OUT

The above discussion is an important back-drop to determining when one might want to start a capacity assessment process. When and where to start such a process is referred to as the entry point. An entry point typically occurs at the systems level or the entity level.

The most typical entry point is at the entity level. For example, there may be a need to reform financial management and budgeting systems within a Ministry of Finance. This initial, rather narrow examination would then be expanded (“zoom-out”) to look at the broader government system of financial management, linkages to budgeting and the integration of policy setting, planning and expenditure management. This would ensure that any capacity development with respect to Ministry level financial management takes into account needs, issues and impacts within the broader government “system.”



Another example might be strengthening administration at a local government level which may be needed, for example, as a consequence of decentralisation. Here, one would **zoom-out** to examine the capacity needs of the local administrative entity within the broader system: the local public and recipients of services, other stakeholders involved in service delivery or programme development, the central or other levels of government and inter-relationships with respect to legislation, laws and taxation.

Entry points are often made at the systems level as well. Examples of this would be broader governance reform initiatives (e.g., democratisation, decentralisation, major re-structuring of government and its role in society), or market economy development in the case of transitional economies. In these situations, the entire system would be examined in terms of existing and needed capacities across all five dimensions, and then capacity development strategies and plans would be formulated.

As another example, a major system initiative might be to improve the role and functioning of the legal system as part of governance reform. After looking at the broader dimensions of capacity at the systems level, one would then “**zoom-in**” to look at the capacity needs of specific entities within the “legal system” such as the judiciary, courts, police services and so on. Further **zooming-in** would allow you to look more closely at the processes, human resources and other dimensions of these entities

and the capacity dimensions of individuals within these entities. Later sections present other examples of how this zooming-in , zooming out might apply.

## 2.4 THE STRATEGIC MANAGEMENT FRAMEWORK

Organisations in both the public and private sectors have increasingly accepted that their performance or success is as much dependent on the complex inter-relationships and factors within the broader system, as it is dependent upon their own internal processes, structures and resources. Here, capacity is defined in this broader systems framework. In fact, this definition is founded upon **Strategic Management**<sup>8</sup> which, as a concept that has evolved over the past 20 years or so, addresses the needs of organisations to go well beyond the traditional internal management and planning functions such as finance, personnel or planning.

Simply put, strategic management may be defined as an approach whereby organisations define their overall character and mission, their longer term objectives or goals, the product/service segments they will enter and leave, and the means (strategy) by which this is to be achieved, especially, but not only, through the allocation of resources. The approach is comprehensive and far-reaching. It integrates and addresses all dimensions of capacity at the systems, entity and individual levels.

The approach allows organisations to establish for themselves the desired relationships with entities or stakeholders within the broader system within which they function. This requires a full and ongoing assessment of the strengths, weaknesses, opportunities and threats (SWOT) both externally (in the system) and internally. The approach is participatory and consultative.

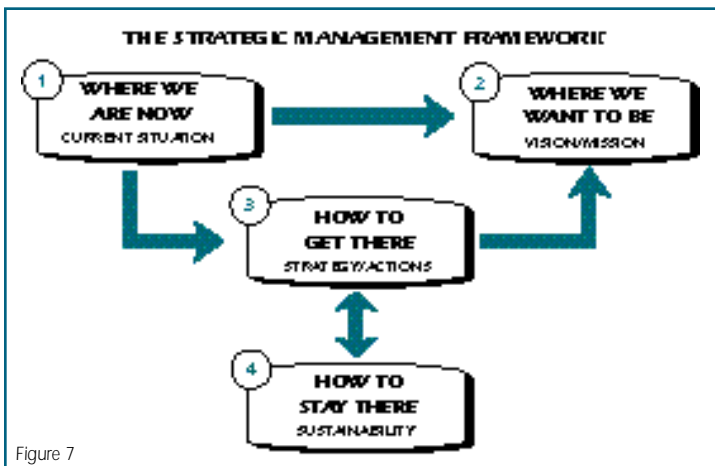


Figure 7

Strategic management itself is considered as a core management capacity within an entity or system. This notion is similar to the DAC definition of core capacities of an organisation (footnote #5 on page 6).

A simple strategic management framework is suggested in these guidelines (graphically illustrated in Figure 7). This framework is common

<sup>8</sup>It is not the intent of these guidelines to go into the subject matter of Strategic Management in any detail. Annex 1 contains some suggested reading matter on this subject. One excellent reference which synthesises much of the work on this subject, including a historical perspective, is: Rumelt, R.P. et al, "Fundamental Issues in Strategy—A Research Agenda," Harvard Business School Press, 1994.

to the programme approach adopted by the UNDP and many other organisations that address broader issues of capacity. These stages and related capacity issues are addressed in **Part II**.

As noted previously, capacity assessments can be carried out as “one-off” types of initiatives, or they can be carried out at any one or all stages of the strategic management life cycle.

The type of assessment depends very much both on the stage of the life cycle, on the nature of the initiative, and on the entry point to be made. Capacity assessment and development can occur during each stage. For example, an organisation embarking on a change or governance programme may need to develop initial capacities to carry out programme planning and management or even to carry out initial capacity assessments to determine whether a programme may be viable. In all cases, emphasis would be given to **utilising existing capacities** and to developing new capacities only where they are needed. More on this is discussed later.

## 2.5 CAPACITY AND MANAGEMENT OF CHANGE

The notion of capacity is inextricably linked to change and the management of change at the systems, entity and individual levels. Increasingly, broader capacity initiatives and other types of programmes address **transformational change** (e.g., in such programmes as those dealing with governance, decentralisation, public sector reform, etc.). This is contrasted with programmes that address gradual or incremental change. There are no hard and fast rules to classify an envisaged programme as one of either transformational or incremental change. In simple terms, if an envisaged future situation is seen to be very different from the way it is today (at all levels), then the capacity initiative is likely one of transformational change.

This can be seen graphically in Figure 8. A capacity initiative which may require limited change within only one or two entities may be seen as one of incremental change (lower left hand quadrant). As capacity initiative impacts and change affect greater numbers of individuals and greater numbers of entities, then the initiative becomes more transformational. This also applies to the dimensions of capacity within individuals and entities—the more that are impacted, the greater the transformational nature of the capacity.

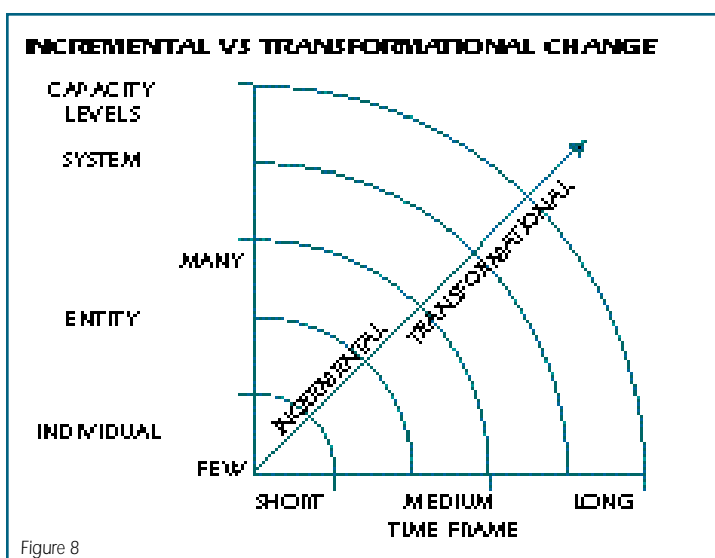


Figure 8