

**PROMOTING**


**INSTITUTIONAL &**

**ORGANISATIONAL**

**DEVELOPMENT**

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There is wide experience of institutional change in DFID. These guidelines draw that experience together to enable it to be shared more widely, to inform and enrich the support that DFID can provide. Institutional development should be part of the remit of all, or nearly all, DFID departments.

The guidelines have been prepared by David Wilson of The Development Partnership, in collaboration with Simon Gill of Governance Department, with contributions from Lindsay Beaton and support from Colin Roth. They build on Technical Note 14, produced by DFID Governance Advisers in 1995, and take account of the guidance sheets produced by DFID's Sustainable Livelihoods Support Office.

Further advice and information on institutional appraisal and development can be obtained from Policy Division, Department for International Development. Contact Roger Wilson: telephone 020 7023 0242; fax 020 7023 0074; e-mail: R-Wilson@dfid.gov.uk

The guidelines are complemented by a Source Book which provides more detail on the techniques and tools referred to. Dissemination of the guidelines will also be complemented by a training and mentoring programme. For further details contact Central Training Unit (01355 843578)

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## ACRONYMS & ABBREVIATIONS

CCTA	Central Computer and Telecommunications Agency
DFID	Department for International Development
HR	Human resources
IA	Institutional Appraisal
ID	Institutional Development
IT	Information Technology
NGO	Non-Government Organisation
OD	Organisational Development
OPR	Output to Purpose Review
PCN	Project Concept Note
WDR	World Development Report

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# INTRODUCTION

## Chapter Purpose

Read this chapter to understand:

- the purpose of the guidelines
- the difference between institutions and organisations
- why institutional issues matter
- the importance of a process approach
- how to assess whether to assist or not
- the structure of the guidelines

## Objectives of the Guidelines

A considerable amount of development activity is concerned with helping organisations to improve their performance. But organisations are subject to laws, policies and cultures. The components of this wider environment are customarily known as “institutions”, and must be distinguished from organisations. Institutions are important because unless they allow and enable organisational improvements to happen, they won’t.

The purpose of these guidelines is to help the reader to distinguish between the institutional and the organisational, to identify institutional problems that inhibit improvements at the organisational level, and to work out how to promote the necessary changes at both levels.

The guidelines are based on experience in DFID and written in a DFID context, but we hope they will also be of interest to others concerned with institutional development, both in donor agencies and in developing and transition countries.

The guidelines do not claim to be definitive – institutional appraisal and development are difficult, and as yet not thoroughly researched. Nor will they convert the reader into an expert on institutional appraisal or development or do away with the need, on occasion, for specialist advice or input from governance advisers or consultants. Rather they are meant to give a sense of the territory and of why institutional issues matter, together with a conceptual framework, a structured approach, and some diagnostic tools - to be used flexibly as there is no one “correct” concept or tool which will work in every situation.

## Definitions and Terminology

### Institutions

Institutions govern individual and collective behaviour. They may be formal - legal systems, property rights, enforcement mechanisms; or informal – customs, traditions. They may operate at different levels – international (eg. WTO rules), national (eg. laws, constitutions), social (eg. norms of conduct, status of women), family (eg. inheritance rules). They may nest within larger institutions – eg. village-based collective institutions nested within the policy institutions of government. They are often also referred to

*Institutions may need to change before organisations can improve ...*

*... the guidelines seek to explain the significance of institutional appraisal and development ...*

*... with suggested methodologies ...*

*... but different cases need different answers*

*Institutions are “the rules of the game” ...*

**Table 1: Examples and Institutions**

Formal Institutions	Informal Institutions
Legal written title to land	Customary rights to forest produce
Formal voting systems	Patronage networks
Patronage networks	Social relationships between individuals (based, for example, on race, class, gender, family and community)
Grade hierarchy	Hierarchy based on age, Caste or party affiliation
Marriage	Concubinage

as "the rules of the game". The most widely used definition of Institutions is that used by North<sup>1</sup>. They "...consist of formal rules, informal constraints - norms of behaviour, conventions, and self imposed codes of conduct - and their enforcement characteristics".

The rules of the game shape the incentives that drive behaviour and performance, and expectations about rights and obligations. They have a major influence on economic development, and on the success and sustainability (or lack of it) of specific projects and programmes.

*... and have important effects on the way people, and organisations, behave.*

**Box 1: Tackling the "Rules of the game": The case of South Korea in the 2002 World Cup**

Guus Hiddink took over as coach of the South Korean national team in January 2001. He inherited a team which was afflicted with many of the problems that affect local business, including a rigid hierarchy based on a deference to elders. He noticed that younger players avoided talking to older team mates and shirked from tackling them during training. He was initially criticised for replacing experienced veterans with younger talent but his success in taking the team to the semi-finals of the competition has led to an enthusiastic response from the public and a call from the Korean business community to "learn from Hiddink"

Financial Times, June 18, 2002

The success of the South Korean football team was due in part to the steps taken by the Dutch coach to address the informal institutions which were constraining the team's performance. Everyone relies on informal institutions to some extent - but they are usually far more important in countries where formal institutions are less well developed.

**Are "Institutions" and "Organisations" the same?**

No. If institutions can be defined as the "rules of the game", organisations are how we structure ourselves to play. The key distinction between institutions and organisations is that between rules and players.

**Organisations**

Organisations are thus groups of players who come together for a common purpose or to achieve specific objectives. They adapt their tactics and organisation according to externally defined rules and regulations - the rules of the game. They play to, but are not the same as, those rules. For example, it is a rule of the game that football teams comprise a goal-keeper and ten outfield players; but the configuration, position and tactics of the outfield players are decided by the team as an organisation.

*Organisations are structures which operate under those rules.*

Organisations encompass political bodies, such as political parties or parliaments; economic bodies, such as firms or businesses; and social bodies, such as churches and schools. They usually have discrete boundaries, a budget, and a structure.

<sup>1</sup> North, D. (1991) Institutions, Institutional change and Economic Performance, Cambridge, Cambridge University Press

*Achieving desired outcomes may need institutional as well as organisational change.*

## The distinction between institutional and organisational development

People have not always grasped this. They have used the terms “institution” and “organisation” interchangeably, for example by talking about “institutional weaknesses” when they mean organisational ones, ie weaknesses in the structure, people and/or processes of an organisation. Understanding organisational reform is of course important, but the bigger institutional picture, which includes rules, incentives and enforcement mechanisms, is important too.

### Box 2: DFID support for police reform

Past interventions often focused on the organisation - restructuring the force, training policemen, new vehicles and radios. But the real point of police reform - the desired outcome - has to be an increase in safety, security and accessible justice for the population at large. This is likely to need organisational improvements of the sort described, but will almost certainly also need institutional reform to change the “rules of the game” governing police behaviour and actions - issues of pay, incentives and accountability to the community.

Both types of development are of course concerned with the process and content of change.

## Why do Institutions matter?

*Institutions can operate against the poor*

Institutions are often creatures of the rich and powerful, and commonly discriminate against the poor. Without institutional reform, poverty alleviation programmes and policies can be stymied. Institutional causes of poverty can include:

- economic – castes that restrict access to markets, land, labour opportunities, and credit
- legal – systems of property rights that favour only men; corrupt practices by police and judiciary
- political – democratic processes that deny poor people a political voice eg. vote buying
- social – class, exploitative patron-client relations

*Poor performance is often down to institutional failings...*

Institutional factors have been a key cause of poor development performance. This is borne out by recent World Bank evaluations<sup>2</sup>, and highlighted in the 2002 World Development Report<sup>3</sup> which stresses the importance of institution building for growth and poverty reduction. DFID’s Governance Target Strategy Paper<sup>4</sup> identified the key capabilities which governments need if they are to work better for poor people to achieve the Millennium Development Goals (MDGs). Achieving the capabilities is very much a matter of institutional change.

*... ignored by narrowly focused technical interventions.*

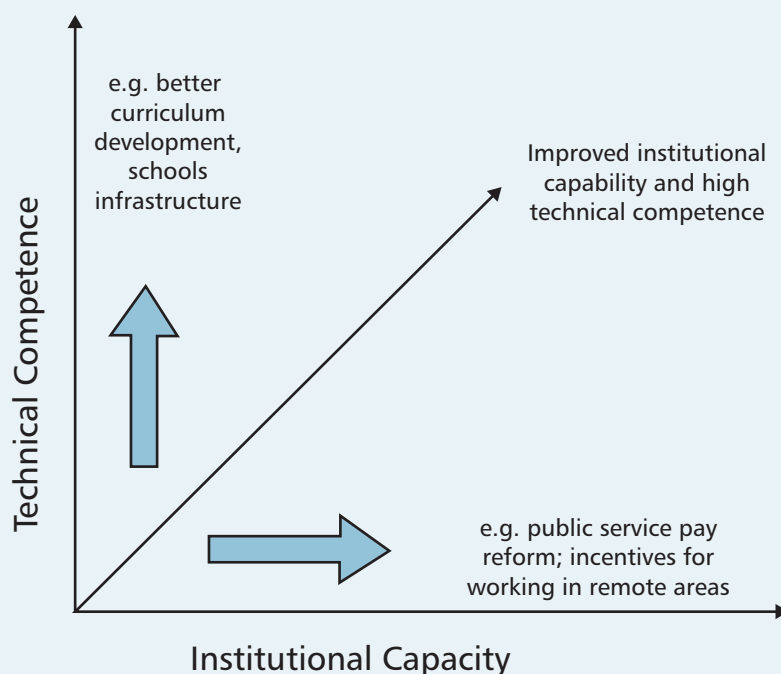
<sup>2</sup> Evaluating Public Sector Reform: Guidelines for Assessing Country-Level Impact of Structural Reform and Capacity Building in the Public Sector World Bank 2001

The Impact Of Public Expenditure Reviews: An Evaluation' World Bank November 1998 OED Report No: 18573

<sup>3</sup> World Bank World Development Report 2002 Building Institutions for Markets

<sup>4</sup> Strategies for Achieving the International Development Targets: Making Government Work for Poor People DFID September 2001

Figure 1: Technical Competence and Institutional Capacity



Development interventions are more likely to succeed if they promote improvements in wider institutional competencies as well as in technical competencies. See Figure 1.

There are real limits to the extent to which sustainable reform can be advanced on one of the axes in Figure 1 without advances on the other. An analysis of both axes will identify (a) the improvements needed in technical competence, and (b) the institutional changes that are needed to allow the technical improvements to work. For example, the young Korean footballers needed the technical competence to be able to tackle; but they also needed to shed the inhibitions which prevented them from using those skills in certain situations.

Capacity building at whatever level (see figure 2) needs to take account of both the institutional and organisational context – it should always be driven by a clear focus on the desired outcome – “what are we trying to achieve?” – whether it be to win more football matches or to improve the safety, security and access to justice of poor people.

Figure 2: The Capacity Building Context

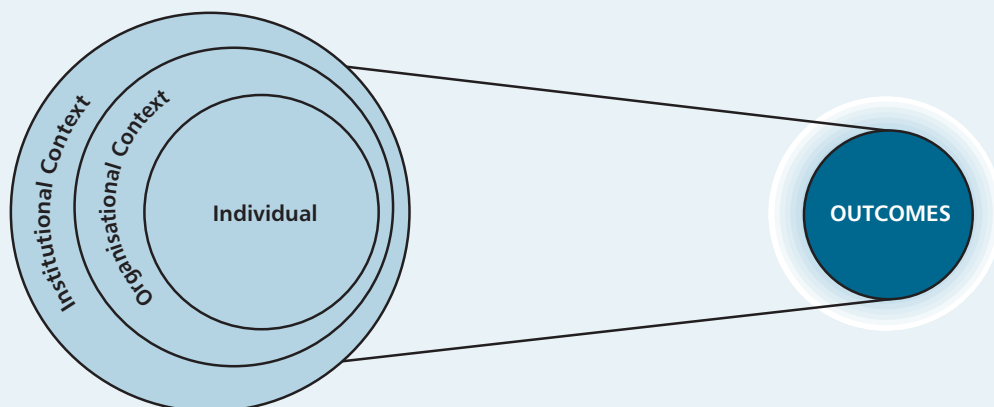


Figure 2 can also be used to illustrate the changing approaches to capacity building over the last three decades. In the 1970s the major focus was on the development of the individual, through scholarships, external and “on-the-job” training, and tools and equipment for people in key positions. The organisational focus of the 1980s led to restructuring and re-design, using organisational audits, advisory support, and help with the development of financial and HR systems. The 1990s brought an increased understanding of the wider institutional framework and the need to focus on outcomes.

Sustained capacity building needs to be built on consistent and complementary interventions at all levels.

Table 2: Key principles underlying institutional and Organisational development

<b>Outcome focus</b> “What are we trying to do and why?”	Transformation must be driven by a focus on desired outcomes. In many cases this will be improved service delivery, and/or more equitable access to services.
<b>Timeframe</b> “How long should it take?”	Changing the rules of the game - familial, communal, social, or collective - takes time. Unrealistic change processes and timeframes will fail. Getting real participation is vital, and especially time-consuming.
<b>Context</b> “Where do we start?”	Institutional development must start from and be constantly informed by current social, political and cultural realities. This involves understanding different groups’ incentives, whether for change or for retaining the status quo. Changing incentives of powerful groups may be the most effective mechanism of institutional change. The precise entry point will need to take into account the overlapping nature of institutions at different levels (local, national and international).
<b>Participation</b> “Who do we work with?”	Changing the rules of the game will meet opposition from vested interests and from those who do not understand the rationale. Widespread stakeholder participation should develop a shared understanding of what needs to be changed and why, how to bring change about, and acceptance of new “rules”, which need to be widely disseminated and well understood. The process should be inclusive and enabling to ensure long-term sustainability.
<b>Accountability</b> “When will we know we have accomplished the task ?”	There is a need to ensure that the reform process is meeting its objectives. Is institutional change facilitating achievement of desired outcomes? Are poor people getting the intended benefits? Accountability will be heavily dependent on a regular flow of information.

## Changing Institutions and Organisations

Institutional development is a complex process which needs to draw from and build on local realities.

The institutional environment is a living, changing one: both the problems and the opportunities to address them can change over time. Institutional development is not a simple linear process. It is more like a game of Chess or Go - but with more players, not all working to the same rules! This presents a challenge to the traditional concept of the project cycle with its essentially linear approach of identification, design, appraisal, implementation, monitoring and evaluation. With institutional development, interventions have to be informed by experience and developed as they go along. In addition, institutional development is often long term, requiring a willingness to maintain involvement over a decade or more. It thus lends itself to a process approach where, within agreed overall objectives for institutional change, outputs and the activities and inputs required to achieve them are defined more clearly as development proceeds. This requires particular attention to monitoring, to provide a framework for adapting interventions to take account of progress and of changing conditions.

*Institutional development is complex and unpredictable...*

*...and needs a process approach...*

*...and usually a long term commitment.*

## Whether to assist or not

Technical interventions that leave unsatisfactory institutions intact will probably achieve nothing. For example a more efficient tax-collecting organisation might be expected to enable the government to collect more revenue and to improve services, but it will not help poor people if the government's public spending policies favour the rich, if taxes are regressive, or if extra revenue will fall prey to corruption.

*Technical interventions that leave unsatisfactory institutions intact achieve nothing.*

Remember too that successful institutional development is very dependent on real commitment from stakeholders, especially those at senior levels – will the tough new anti-corruption laws actually be enforced? It is usually not worth proceeding if this commitment is not there.

*Institutional change needs genuine commitment from key stakeholders.*

The achievement of broader development objectives may hinge on institutional development. If there is for the moment no prospect of bringing that development about, these objectives will have to be put on hold.

*Shelve objectives if they need new rules of the game which are out of reach.*

## The Process

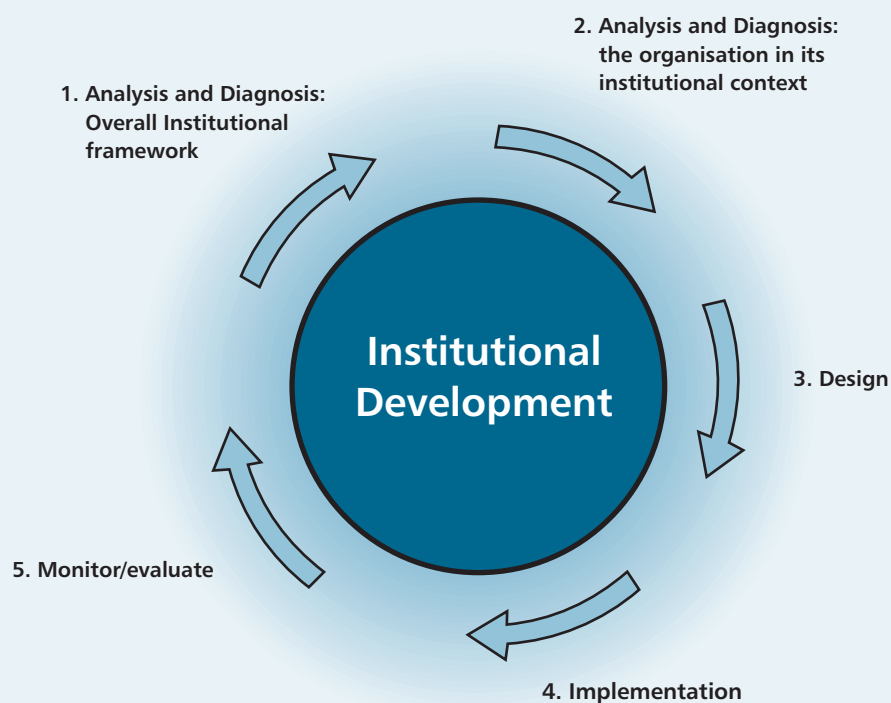
We have adopted a 5-stage process, illustrated in Figure 3 below, to guide readers through the key areas. Later chapters look at each stage in greater detail and suggest appropriate tools. Further details of tools and techniques can be found in the Source Book.

## Structure of the Guidelines

There are five chapters following this Introduction:

*Chapter 1: The overall institutional framework. "What are we trying to achieve and why?" "What are the main institutional strengths/weaknesses?"* Highlights the importance of having clear developmental outcomes, and a clear understanding of the institutional framework, including the roles of stakeholders. Introduces you to the main diagnostic tools and techniques used in institutional appraisal – how to probe for the key underlying causes of institutional weakness before deciding which priorities need to be addressed.

Figure 3: The Institutional Development Process

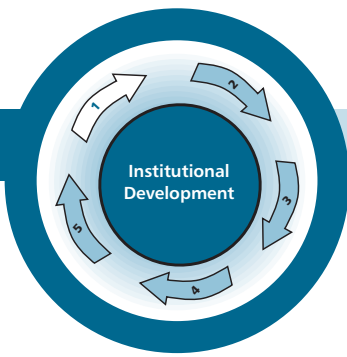


*Chapter 2: Organisations in the wider institutional framework.* "What are the main organisational strengths/weaknesses?" "What is the overall institutional and organisational diagnosis?" Looks at the diagnosis of organisational problems, in the context of the wider institutional environment.

Chapter 3: Designing an intervention. "What is the best way to promote change?" Describes a number of possible interventions with some guidance on selection.

Chapter 4: *Implementation.* "How do we implement the change programme". Highlights the importance of managing interventions as a change process, and the important factors which lead to success or failure. It also touches on how to revive stalled interventions.

Chapter 5: Monitoring and evaluation. "How do we know we are achieving our goals?" Sets out a process for monitoring the success of institutional interventions, and for an exit strategy.



# 1 THE OVERALL INSTITUTIONAL FRAMEWORK

What are we trying to achieve and why?

## Chapter Purpose

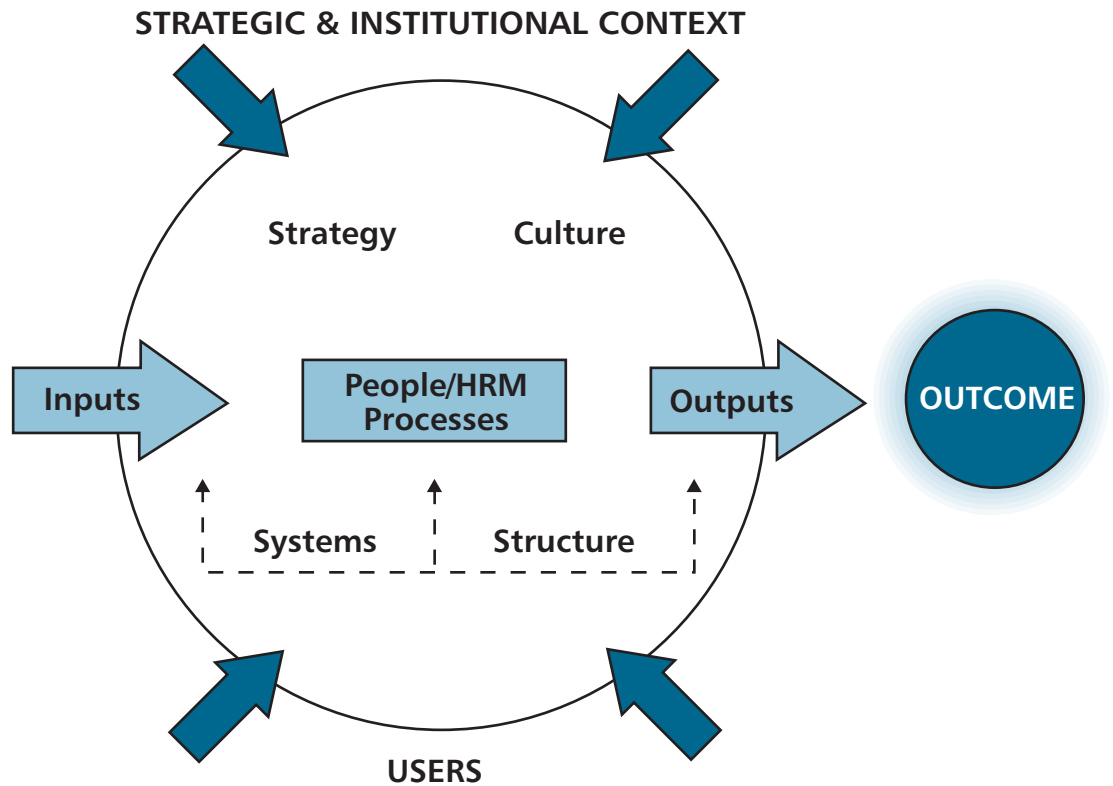
Read this chapter to understand:

- a framework to guide the analysis
- the importance of clear development outcomes
- the dynamics of institutional change
- the role of stakeholders
- the importance of the diagnostic phase
- how and when to start the diagnostic process

## The context

1. This chapter focuses on outcomes, institutions, and stakeholders. Outcomes set the broad context – what do we want to achieve? Institutions, formal and informal, provide the context within which organisations must achieve the outcomes; is the context right or is there a need for institutional change? Stakeholders include service users, who should have a say in determining outcomes; politicians and senior officials who hold the key to institutional change; and service provider managers and personnel responsible for implementation.
2. Figure 4, the open systems model, illustrates the links between an organisation, the wider institutional environment, and the outcomes which it is striving to achieve. It provides a framework to guide the diagnosis and to monitor the impact, and highlights the complex interaction of factors that affect the achievement of successful outcomes. A more detailed explanation of each of the model's components is provided in Chapter 2.

Figure 4: Open Systems Model



(Source: Organisation Development and Change: Cummings and Worley, 7th edition South-Western College Publishing 2001)

## Outcomes

*What are we trying to do?*

3. The development outcomes will shape the direction and the type of change needed - usually a combination of institutional and organisational change. It is important to distinguish between the two, because they call for very different remedies: issues associated with organisations and how they behave tend to be visible and tangible; those to do with institutions may be invisible, but they determine how people operate in society and how they respond to incentives.

4. The analysis should therefore start with the desired outcomes and lead on to the actions that are required, and the organisational and institutional changes that are needed if the actions are to take place.

*How must things change if we are to succeed?*

5. Suppose the desired outcome is to provide a sustainable, reliable and affordable water supply. Starting at the point of water use identify the types of actions that are required and who has to take them. Then look at how the organisation needs to change for this to happen. And finally look to see how the rules of the game need to be changed to enable the organisation to implement the required reforms.

### Box 3: Water Reform in Argentina

In Buenos Aires the objective of improving water and sanitation services led to an innovative collaboration between the water supplier - Aguas Argentinas, a privatised monopoly - and the local community. The community was experimenting with both a low-cost sewerage system and a dual water system - one connection to the network for small volumes of potable water and another drawing on groundwater sources too salty for drinking but good for washing and bathing. The community was able to maintain the sewerage system but had decided to drop the dual water system at the experimental stage as it was too costly to develop. Aguas Argentinas agreed to take it over by providing a discount on the price of water in exchange for the assets.

The desired outcome was thus achieved with a change in the “rules of the game” whereby the community and the water supply company engaged in an innovative financial arrangement.

## The dynamics of Institutional change

6. While institutional change can sometimes occur in leaps and bounds eg. through war, revolution or change of leadership, more typically it is a slow and deliberate process. Donors can help at the top end eg. through assistance to improve policy making capacity, public expenditure management, and new incentive mechanisms, and from the “bottom up” by promoting the voice and partnership of poor people.

### Box 4: Open information flows as a driver of institutional development

“Better information makes monitoring people’s behaviour easier. This ability to monitor behaviour changes behaviour and institutional quality even when institutional structure does not change. Better information can also change social norms and so change people’s incentives to participate in different institutions. And it can inform policymakers and other market participants about the benefits and constraints of institutional reform.”

WDR 2002

7. Changing the rules is inherently difficult. Changing informal rules can be more difficult and take more time than changing formal ones. Change is likely to be resisted by those groups that benefit from the status quo – often the very groups who control the power of the state, and whose opposition will be hardest to overcome<sup>5</sup>. Recent work commissioned by DFID has highlighted both the importance of understanding the political context and the limits and constraints on political capacity to implement policy priorities.<sup>6</sup> These are directly related to low levels of political legitimacy and weak representative institutions. Any analysis of the institutional context will therefore need to incorporate an analysis of both the Government’s policies and priorities and its ability to implement them.
8. The process of institutional change will therefore be dependent on both an understanding of the institutional components (Table 3) and a clear analysis of the various stakeholders and their characteristics (see over page).
9. Table 3 summarises the key institutional components. In particular governments need priorities among their desired outcomes in order to allocate scarce resources to best advantage. Determining and sticking to priorities needs effective decision-making structures and policies. Policies can change institutions to make them more, or less, supportive of the poor (Box 5), or to alter incentives. Incentives may be needed to manage opposition to pro-poor policies from vested interests and major stakeholders; and/or to improve the performance of service deliverers. Other significant components which need to be addressed are the legal, and cultural aspects. Voice and partnership issues are particularly important as they will not only assist in the clearer articulation of demand for services but also in developing legitimate political authority and building up representative institutions. An understanding of key drivers for change is essential both in the diagnosis and design of institutional change.

*Institutional change is usually slow...*

*...and difficult because of powerful opposition.*

*It needs an understanding of all the components and all the stakeholders.*

<sup>5</sup> However, the 2002 WDR acknowledges that while many reforms are difficult because of vested interests which benefit from the status quo, it is also true that some institutions continue to exist not because they have much support, but because the forces which ought to be pressing for change are not adequately organised to do so.

<sup>6</sup> Building Political capacity for Poverty Reduction, Governance Department, DFID, 2002

**Table 3: Institutional Components**

Priorities	Has government identified its priorities amongst its desired outcomes and allocated resources accordingly? Are allocations adhered to? What are the core policy and decision making structures? What levels of expenditure can be afforded in the short, medium and long term? What mechanisms are available to ensure that poor people's views are taken into account? Who sets priorities and in response to what interests? Can priorities be translated into resource allocations?
Policies	How effective are the core policy and decision-making structures and processes? Are they based on evidence and data? What is the availability and quality of data? What is the impact of policy changes on the poor?
Incentives	What is the current formal/informal incentive structure? Who benefits? What are the incentives for state structures to deliver services; for the bureaucracy to attract and motivate staff; for the development of national skilled human resources? What incentives, if any, are there to modify behaviours of key players in support of the desired outcomes? What incentives are there to review and improve performance?
Rules and Law	Are formal rules and laws respected? Are there informal rules leading to corruption, patronage, victimisation, exclusion? Can rights be enforced through law? Are rules and law subject to political interference? Are there informal systems of dispute resolution?
Culture	National attitudes to risk, hierarchy, incentive systems, participation, donor interventions, etc. Willingness to engage in consultation. Responsiveness to information. Issues of community and individual identity.
Drivers for change	What are the key drivers for change? Social, technological, economic or political? Are there sponsors or champions for reform? Extent of their power and influence. Level of commitment to reform. What benefits or incentives do they have to push a reform process? Level of political stability. What are the implications of the current electoral cycle?
Voice and partnership	What mechanisms and structures are in place to promote the concerns of poor people? Awareness raising, capacity building, joint management of eg. forestry or water resources, participatory budgeting? How effective are they? What voice do poor people have to hold delivery organisations to account? Report cards, public audits?

**Box 5: How policy can affect the poor**

Land reform measures can encourage more equitable growth and lead to higher incomes for small farmers.

Privatisation policies can reduce poor people's access to markets with the disappearance of parastatal marketing boards and their incentives to purchase small quantities of products from fragmented and isolated producers.

**Why stakeholders must be involved**

10. Stakeholders can both influence and be influenced by institutional changes. They include intended beneficiaries and intermediaries, winners and losers, people who are involved in decision-making and people who aren't.
11. A comprehensive participatory stakeholder analysis helps to ensure that the diagnosis takes account of local knowledge and understanding, to make the interests of key stakeholders transparent, and to build ownership of the reform process. Both politicians and public servants need to be confident that the reforms will solve their real problems. It should also help to gauge opposition to reform, and to see whether there are ways of mitigating it, or whether the opposition is so fundamental, implacable and powerful as to make achievement of the desired outcomes unlikely, in which case it will not be possible to proceed. The analysis can be done independently or as part of a change forecasting exercise (see paragraph 18). The analysis will help to identify potential winners and losers and establish the relative power and influence that different groups can exert on policy formulation and implementation.

*A comprehensive stakeholder analysis will lead either to a consensus on a way forward...*

*...or to the conclusion that there is too much opposition for reform to succeed.*

### Box 6: near failure at St Mary's Mission Hospital, South Africa

"We had the medical superintendent, the sister superior...and the assistant nursing services manager... they were absolutely 100% supportive. We approached the Board later, which was nearly a bit of a train crash, because we had already worked a bit with senior management. They felt excluded and threatened. It was a key lesson for us. You've got to bring in your key decision makers early. You have to bring on board those actors who have the ability to collapse the whole process. The unions are another example... For them to stand outside the process as is the tendency is destructive."

Schreiner, "Transforming a bureaucracy into...", 1998 quoted by Pasteur K in "Changing Organisations for Sustainable Livelihoods" IDS, 2002

*Full stakeholder participation will help get the diagnosis right ...*

*...and build local commitment*

## A Methodology for Participatory Diagnosis

12. A suggested methodology is set out in Table 4.

**Table 4: Participatory Diagnosis**

1.	See how the problems and constraints are perceived and try to respond to that agenda. Use SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis to open up dialogue (see Source Book section 2/3).
2.	Seek views of "disadvantaged" stakeholders - the poor and less powerful members of the community (but recognise that some may be reluctant to express their real views in public) (see also paragraph 14 below).
3.	Look for opportunities to widen horizons and perceptions of what might be changed, and how - eg. through visits to successful organisations in other states, study visits.
4.	Look for incentives to promote accountability eg. better government monitoring of parastatals, or mechanisms for consulting service users.
5.	Develop the project in a participative way, encouraging the organisation to take the lead and helping it to work through its problems, while being clear what DFID could and could not justify supporting.
6.	Do not talk only to supporters of change: find out who opposes it and why, and work out a plan for managing opposition.
7.	Be driven by what is needed to get key stakeholders on board, not by a donor timetable.
8.	Design programmes with a view to some early successes to encourage and maintain support.
9.	Enhance commitment by helping the organisation to prepare action plans and performance indicators.

13. The process that needs to be worked through in the development of a stakeholder analysis is detailed in Table 5.

**Table 5: Stakeholder Analysis**

1.	Draw up stakeholder table: <ul style="list-style-type: none"> <li>• list all stakeholders</li> <li>• list their interests</li> <li>• make a preliminary assessment of the likely impact of the project on those interests</li> </ul>
2.	Assess the influence and importance of stakeholders to the institution What are their anticipated behaviours?
3.	Indicate the relative priority to be given to meeting or challenging the interests of each stakeholder. The use of Forcefield analysis (see Source book 4/2) may be useful here.
4.	Identify appropriate stakeholder participation: <ul style="list-style-type: none"> <li>• discuss with individual stakeholders the role they should play</li> <li>• summarise key stakeholders' roles at different stages of the project cycle, in a participation matrix</li> </ul>

## Finding out what poor people think

14. As the main intended beneficiaries of interventions, it is important that poor people be encouraged to participate at all stages. The difficulties faced by poor people in making themselves heard are well known. Table 6 suggests some possible approaches.

**Table 6: Ways of consulting poor people**

Formal Planning Processes:	eg. country-wide workshops and events - national debates on national strategies for sustainable development, land policy reform, and participatory poverty assessments.
Communications and media:	eg. participatory video overcomes literacy barriers and enables villagers to present their own views and interpretations, and to open dialogue with policy-makers and local authorities.
Civil Society Organisations:	CSOs represent their members' interests in a number of ways and strengthening their capacity is an important way of promoting pro-poor institutional reform.
Institutionalising participatory approaches:	<p>New institutional arrangements to help poor people to participate include:</p> <ul style="list-style-type: none"> <li>• decentralisation of decision-making powers to local authorities or communities, who are closer to their constituents.</li> <li>• making public organisations accountable to civil society, creating incentives for them to listen to, and act upon, the needs of poor people.</li> <li>• constitutional changes to legitimise civil society groups, to permit freedom of speech (including the liberalisation of media) and to allow civil society to sanction the actions of government (by, for example, ensuring regular open and free election of government).</li> <li>• understanding the cultural context and the impact of this on the consultative process.</li> </ul>

## Why diagnosis is important

15. It is not possible to remedy poor development outcomes without a proper understanding of both the institutional problems and the technical problems which stand in their way. This requires one holistic diagnostic effort, involving all the stakeholders. This chapter has suggested a methodology that is applicable at the institutional level. Chapter 2 will apply further diagnosis at the organisational level.
16. The diagnosis must be thorough (though a preliminary or partial analysis in the first instance might serve as a basis for terms of reference for a more comprehensive diagnosis later on). Otherwise there is a danger of confusing the symptoms with the disease, and of jumping to premature conclusions about the cure. This is more of a risk with organisational appraisal (Chapter 2), but can occur with institutional diagnosis too: for example if corruption is a problem the cause may appear to be a lack of strong anti-corruption laws; but if those in power are corrupt and have no intention of letting new laws be enforced, new laws will not be the cure.

*A thorough diagnosis should avoid premature and unsustainable solutions*

## Distinguishing symptoms and underlying problems

17. To understand what is driving poor performance it is important to look for the underlying causes, and to distinguish between the technical and the institutional (see table 7 and figure 1).

**Table 7: Clarifying underlying causes**

Step 1	Distinguish between technical and wider institutional issues
Step 2	Analyse which problems are caused by defects in the wider institutional/ governance environment, such as a poor legal or policy framework
Step 3	Use a tool such as problem tree analysis to show the links between the symptoms and the underlying causes

## What institutional changes are most likely to work?

18. Institutional change is slow and difficult, and sometimes impossible. Having established what needs to be done consider what is likely to be done, and evaluate the gaps between the two. The gaps define the more intractable institutional problems. Change Forecasting (see Source Book 1/4) is one of a set of tools that can help to highlight these gaps. It centres on ways of predicting likely changes, including their probable direction and speed, based on the historical, political, cultural and economic context. This can help to identify the reform processes which are most likely to work. If these changes are insufficient to achieve the desired outcomes there is no point in proceeding.

*What institutional change is likely?*

*And will this be enough to achieve the outcomes?*

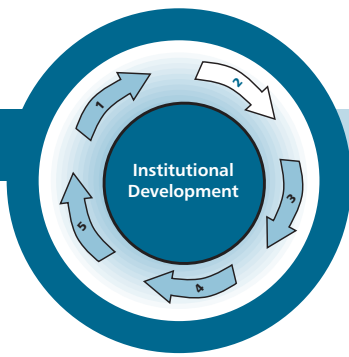
## Sources of information

19. The following will assist in building up a picture to inform both the institutional and organisational appraisal:

- governance reviews
- academic work especially on politics and the economy
- reviews and reports by other donors
- local knowledge
- data collected by:
  - i speaking to key stakeholders eg. government ministers and officials (but do not rely totally on this source).
  - ii having as many conversations as possible with the "lightly connected"<sup>7</sup>.
  - iii convening subgroups of key stakeholders involved in implementation/delivery to obtain views on how to achieve the development outcomes.
  - iv triangulating among these multiple conversations to arrive at a judgement about (a) the opportunities to take forward institutional change to underpin progress in achieving the development goals and (b) the most serious threats to this.

*Tap all available sources of information.*

<sup>7</sup> The "lightly connected" are members of the society and outsiders resident in the country who are sufficiently detached from the institution to be able to offer disinterested advice.



## 2 ORGANISATIONS IN THE WIDER INSTITUTIONAL FRAMEWORK

What are the main organisational strengths/weaknesses?

What constitutes an organisational diagnosis?

### Chapter Purpose

Read this chapter to understand:

- the need for thorough, participatory diagnosis
- the suggested model for carrying it out
- the need to establish underlying causes of problems
- how to structure the overall analysis and clarify priorities

*Identify the disease, not just the symptoms.*

### Some hints on diagnosis

1. As foreshadowed in Chapter 1, this chapter looks at the diagnosis of problems arising at the organisation level. This part of the diagnosis also needs to be thorough: the trap of treating the symptoms rather than the disease again lies in wait for the unwary, and is tempting as symptoms often seem to invite neat technical solutions. For example, a new financial management system may seem to be the answer to poor expenditure control. But the real reason for weak control may not be technical but institutional - eg. a lack of political will to enforce adherence to existing rules and regulations. In that case a new system will make no difference, and wider institutional reform will be necessary. Addressing symptoms will not bring sustainable improvements, and may exacerbate weaknesses. There is also the risk of seeing the latest fad - Total Quality Management systems, integrated management information systems - as the answer to all problems. These approaches can work, but only if they focus on the real problems and can cope with any likely constraints. They may need to be applied in a modified form.
2. See Chapter 1 as regards sources of information, and the Source Book for more detail on the diagnostic tools that can be applied at organisational level.
3. Table 8 sets out the main organisational components, and shows how they are linked to various institutional issues.

**Table 8: Organisational components and institutional links**

Component	Organisational Issues	Relevant Institutions
Inputs and Resources	Financial position and prospects Expenditure – where does the money go? What links are there with clearly and publicly defined outputs and outcomes? Do staff costs crowd out other expenditure?	Government priorities and policies Government resource allocation Public expenditure management Accountability for use of public funds
Strategy	Is there a strategic plan? Is it appropriate? Is it effective? Is there a change management strategy?	Government priorities and policies Government resource allocation
Culture	Management style and bureaucratic behaviour. Likely impact of external change agents. How much consultation and participation?	Dominant national values and norms Drivers for change
People and Human Resource Management	Basic statistics. Are staff well managed and well motivated? Are appointments and promotions made on merit? Are pay scales adequate? Skills and skill gaps? Training?	Government priorities and policies Government resource allocation Dominant national cultural values and norms Incentives
Systems and Processes (including decision making, management information)	What are they? Are they used? What are the problems? Eg. is there enough/too much/too little management information? How is it used? What about accountability? And coordination? Do procurement procedures give value for money, are they transparent and honest?	Government priorities and policies Public expenditure management Accountability for use of public funds Dominant national values and norms
Structure	What is formal structure? How does it work out in practice? Is it appropriate? Does it support lines of accountability, decision making and co-ordination? Control of resources and levels of accountability. How far are matters decentralised?	
Outputs and Performance	Baseline Impact in the real world – outcomes Performance indicators Performance management Feedback	Voice and Accountability Mechanisms

## Bringing the diagnoses together

4. The overall diagnosis needs to:
  - set the institutions and the organisation in context and summarise the key features
  - provide a framework that captures all the potential dimensions of institutional and organisational problems
  - facilitate discussion and engagement with stakeholders
  
5. Table 9 sets out a possible framework to help develop a 'big picture' perspective of the key issues. It can also be used as a checklist, and to help evaluate diagnoses completed by third parties. It is difficult to disaggregate the institutional from the organisational but we have attempted to do this by leaving institutional issues unshaded; organisational ones lightly shaded; and overlapping issues heavily shaded. The classification may not be correct in all cases.

*Develop a clear structure for collating the overall diagnosis.*

Table 9: Structuring the Diagnosis

<p><b>The Overall Environment</b></p> <ul style="list-style-type: none"> <li>• Economic background – growth etc</li> <li>• Political/legal environment – stability, - legal framework of institution, - corruption, - extent of political interference in detailed operations</li> <li>• Social – cohesiveness of society, - minorities issues</li> <li>• Priorities and policy making capacity</li> <li>• Key drivers for change</li> <li>• History of previous reform efforts and achievements</li> <li>• Key stakeholders - what critical actions have to be taken</li> <li>• Outcomes - what constitutes programme success?</li> <li>• Incentives - to modify behaviour of key stakeholders</li> <li>• Accountability and governance arrangements?</li> <li>• Informal influences?</li> </ul>	<p><b>Inputs and Resources</b></p> <ul style="list-style-type: none"> <li>• Revenue: major sources; how stable are they? Is there a serious shortfall and if so why?</li> <li>• Financial and capital assets</li> <li>• Numbers of staff by job category</li> <li>• Major programmes and programme headings</li> <li>• Balance between personnel and operating costs</li> <li>• Budgeting system - how effective?</li> <li>• Does final expenditure bear any relation to the budget?</li> <li>• Is there a link between expenditure and outputs?</li> <li>• Size of budget surplus/deficit</li> <li>• What accountability and audit mechanisms are in place?</li> <li>• For commercial enterprises, is the organisation financially sustainable?</li> <li>• Financial performance over last 3 years</li> </ul>
<p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>• Official statements of goal and mission</li> <li>• Actual priorities as indicated by budget allocations to divisions</li> <li>• Is there a strategic planning process - what form? Were staff and other stakeholders involved?</li> <li>• Form of high level decision-making</li> <li>• Has the strategy been derived from an appraisal of the institutional environment - strengths, weaknesses, opportunities, threats? Current levels of service delivery?</li> <li>• Are the goals and strategy generally understood inside and outside the organisation?</li> <li>• Is there a plan to achieve the changes necessary to meet goals? Is there a clear implementation plan? And provision to adapt and review in light of circumstances?</li> </ul>	<p><b>Culture</b></p> <ul style="list-style-type: none"> <li>• attributes of national culture and their impact on the institutional framework / management of the organisation</li> <li>• What are the implications of the above for the design of: <ul style="list-style-type: none"> <li>• Consultative/ participatory processes</li> <li>• Performance management</li> <li>• Monitoring information</li> <li>• Impact of external change agent</li> </ul> </li> <li>• Likelihood of a more effective organisation meeting its goals</li> </ul>
<p><b>People/HRM</b></p> <ul style="list-style-type: none"> <li>• Human "outputs" - indications of satisfaction and commitment such as absenteeism and turnover</li> <li>• Pay scales and how they compare with competing organisations</li> <li>• Is there a performance management/appraisal system</li> <li>• Perceptions of leadership of organisation</li> <li>• Investment in training/skills development</li> <li>• Skills shortages</li> <li>• What are the main personnel systems? Does the organisation know how many staff it has?</li> <li>• What is the recruitment system? Are there any major staff shortages?</li> <li>• Informal power blocks and coalitions</li> </ul>	<p><b>Systems</b></p> <ul style="list-style-type: none"> <li>• Major systems for high level decision-making, strategy formulation and planning</li> <li>• Are systems clearly documented?</li> <li>• What evidence is there of use of systems</li> <li>• What management information is supplied at what levels? What action is taken as a result?</li> <li>• Are there clear lines of accountability?</li> <li>• Try a random check on how a specific system is being used in practice</li> <li>• What formal and informal mechanisms exist for co-ordination?</li> <li>• Are there documented procurement processes?</li> </ul>
<p><b>Structure</b></p> <ul style="list-style-type: none"> <li>• What is current structure? Is there a clear organisation chart?</li> <li>• Are there clear lines of accountability responsibility?</li> <li>• What are the number of management levels in the organisation?</li> <li>• What are the average spans of control?</li> <li>• Basis for grouping of units</li> <li>• Co-ordination mechanisms</li> <li>• Spatial distribution of units</li> <li>• Degree of decentralisation of processes and authority</li> </ul>	<p><b>Outputs/Performance</b></p> <ul style="list-style-type: none"> <li>• Main products or services</li> <li>• Indications of satisfaction with services</li> <li>• Impact on the poorest in society</li> <li>• Baseline of performance - what outputs, at what cost and outcomes</li> <li>• Performance of key policies</li> <li>• Is there a performance management system?</li> </ul>

## Agreeing priorities for reform

6. There will almost certainly be too many problems to tackle at once and some may, in the short term, prove intractable. Priorities will need to be agreed by the partner institution, along with criteria for determining them. Criteria will vary from case to case but might include :
  - cost
  - impact on overall aims of project or programme
  - prospects for "quick wins"
  - level of resistance expected
7. If institutional reform in one area depends on supporting or complementary reforms elsewhere, you may need to develop some preconditions, or concentrate initial efforts on the supporting institutions before addressing the core activity. This may also have implications for the sequencing of reforms.

*Be sure to agree priorities with key stakeholders.*

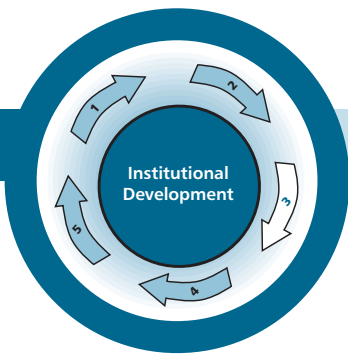
*Consider whether the desired changes depend on reforms elsewhere.*

### Box 7: What can happen if clear priorities are not agreed

In India the government saw the Gomti River Pollution Control project as cleaning up the river under the Ganga Action Plan. DFID saw it as a way of helping to meet the health, environmental and other needs of the citizens, particularly the slum dwellers. DFID tried to build a river cleaning project into an improved municipal services project in line with its water sector and environmental policy in India, while the Government of India made no attempt to rationalise DFID's proposals with its own priorities. The fundamental gap of a common understanding and vision created continuous confusion in setting priorities and selecting options.

In Nepal road maintenance programmes set out to improve the maintenance capacity of the Department of Roads, by helping to set up an independent Road Board. However, there was no adequate institutional analysis, and the key issue of stakeholder commitment was overlooked. There was constant political interference in the project, with money being taken from the Road Board and allocated to new roads rather than improved maintenance. In Nepal, as in many countries, there are more votes to be won from building new roads than from maintaining existing ones.

8. Once we have completed our organisational analysis, and the associated analysis of the institutional environment, we need to construct/ consider relevant interventions. The following chapter provides some guidance.



### 3 DESIGNING AN INTERVENTION

What is the best way to promote change?

#### Chapter Purpose

Read this chapter to understand:

- the options available at both the institutional and organisational levels.
- how to select the most appropriate option.

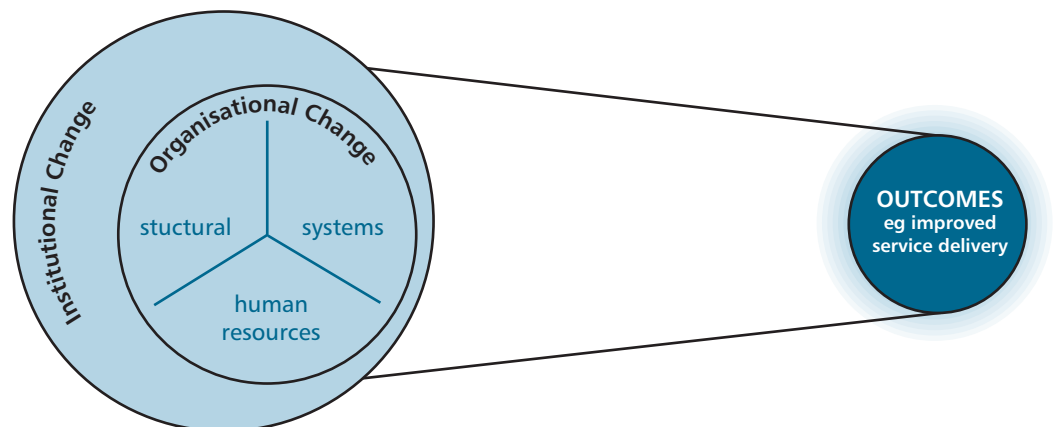
#### Types of intervention

*Consider what sort of intervention is required...*

*...starting with the institutions.*

1. The options for intervention are illustrated in Figure 5. Essentially they divide between the institutional and the organisational. Institutional reform usually focuses on policy, or on incentives to improve service delivery. Organisational reform may be structural, systems or human resources. A reform programme may embrace some or all of these elements. Institutional reforms can be slow and expensive and often call for the reform of organisations to implement the new measures.
2. It is best to start by looking at the institutional options. This involves a fundamental review of the "rules of the game" and of core purpose, including whether the function is necessary or not, and then looking at a range of alternatives.
3. Lessons from successful reform programmes provide useful insights into the likely conditions under which change may occur - table 10.

Figure 5: Options for Intervention



**Table 10: Conditions that support institutional change**

The following factors have been observed to be important for creating policy and institutional change:

- **Crisis.** Countries that face serious crises of legitimacy, stability or sustainability may be forced to adopt drastic measures to protect themselves: the cost of NOT changing policies and institutions may be greater than the cost of change. Windows of opportunity for change can present themselves at such times, as for example in the financial crisis that hit South East Asia in the 1990s.
- **Leadership** consistently plays an important role in reform situations. It is generally leaders who put reform on national political agendas, who provide a vision, who are actively involved in shaping the content of proposals for change and who spearhead the process of generating support and managing opposition to change. The emergence of strong champions of change provides an opportunity for promoting policy reforms.
- **Ideas** - particularly ideas about the appropriate design of institutions - are important in defining new rules of the game. Most commonly, ideas are understood as political resources, a form of capital that is used to promote particular positions or to influence the outcome of decisions. Drawing on foreign influences, ideas can have a considerable impact on the types of solutions offered to deal with institutional deficiencies. The content of institutional change may often be defined through exposure to new ideas from elsewhere or by piloting new concepts in country. International standards or norms may often provide an entry point.
- **The social organisation of the poor** (the "demand side") is very important in a reform process. It can raise the significance of poverty issues for political elites. The beneficiaries of altered rules of the game need to be supported to protect new institutional arrangements.

## Institutional Interventions – Policy reform

4. Policy reform is usually:
  - a. **incremental:** small improvements to existing policy.
  - b. **influenced by previous practice:** new policy typically reflects established norms, standards and perceptions about the ways things happen .
  - c. **shaped by a wide range of stakeholders:** policy and institutions define the opportunities for organisations and for wider society. Organisations of all sizes desiring favourable outcomes for themselves or their constituents will seek to influence them. New policies and institutions are typically the product of protracted negotiation between competing interest groups.
  - d. **political:** ministers will want to set policy in ways that will satisfy their own personal and political agendas.
5. None of this is good news for the poor. The causes of poverty can be traced to policy and institutional frameworks that discriminate against poor people. Incremental changes – (a) above - may not be an option when seeking to restore fundamental distortions. Radical policy and institutional reforms may be required which also run counter to the traditional processes at (b) (c) and (d) in that:
  - they introduce totally new - and often alien – concepts or paradigms to the policy arena that challenge strongly held views about the 'ways things should be done'.
  - pro-poor change alienates those who will lose benefits they enjoyed under the old regime. This group of 'losers', many of whom are likely to be well organised and influential, will strongly resist.
  - policy makers will not welcome challenges to their political authority and patronage systems.

*Policy reform is traditionally slow...*

*... and governed by political and other vested interests...*

*...who may have little interest in pro-poor policy change.*

*But there have been successes.*

#### Box 8: Bus Regulation in Jordan

Jordan's bus services were regulated by several different bodies, leading to fragmented and overlapping services, with no services in some areas and congestion in others. A new law was drafted, giving sole responsibility to the Ministry of Transport, but was blocked by Cabinet and Parliament. Bus licences were a source of political power and patronage. Many bus operators were MPs or friends of MPs; they made big profits from their buses and saw the legislation as a threat. The authorities that were to lose their licensing powers did not want to lose the revenue. The problem was solved by creating a powerful constituency for reform, supported by the King.

Interventions to reform policy are particularly difficult. Opportunities may however arise as a result of reviews or changes in the legislative framework (as the case in Jordan), public pronouncements by politicians which may provide an opportunity to review existing policy or clear weaknesses in the application of existing policies which may be picked up by the media. All of these provide openings through which policy reform can be actively discussed.

### Institutional Interventions - Improved Service Delivery

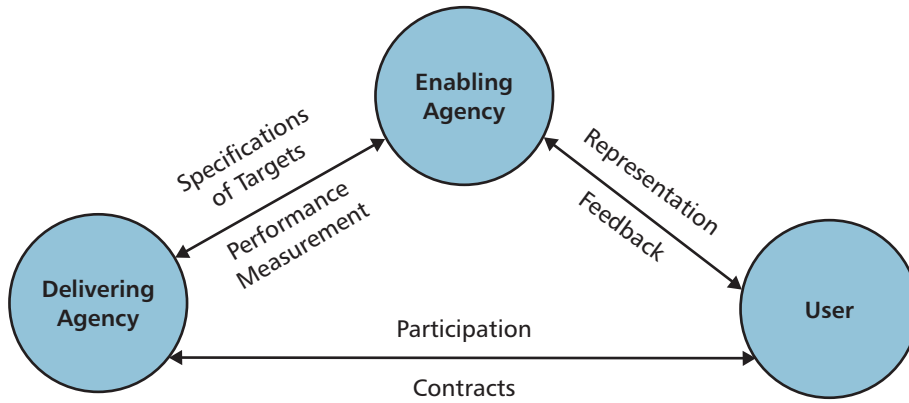
*There are various options for improving service delivery.*

6. A key outcome of institutional and organisational reform is improved service delivery to the poor. To improve delivery, governments are experimenting with a range of institutional mechanisms, including:
  - greater use of markets and contracting out
  - setting up performance-based agencies in the broader public sector and holding them accountable for the achievement of outputs or outcomes
  - voice and accountability mechanisms such as user participation and client surveys to ensure that there is a clear articulation of both demand for services and engagement in maintaining the quality of delivery
  - public sector reform programmes, notably public expenditure management reform to sharpen up priorities and improve budgeting and accountability processes

#### The enabling agency model

7. The "hub" model (Figure 6) focuses on the relationships between enabling agencies (which are institutions – but not the only ones) and organisations and users, and suggests some institutional questions. It highlights the principal/agent relationship, and identifies the need for institutional changes to support and sustain new patterns of service delivery by organisations. The need for an "agency" may have been identified in the Prior Options review – see Figure 7. This model will be the basis for the analytical framework in the forthcoming 2004 World Development Report "Making Services Work for Poor People".

Figure 6: the “hub” model



(Source: Governance and Institutional Structures 2001 - Mary Hobley and Dermot Shields. Note that the delivering agency might be a public body, NGO or in the private sector.)

Table 11: Questions suggested by the “hub” model

**Enabling agency – Delivery agency**

- Does the enabling agency set appropriate standards for service delivery?
- Does the delivery agency meet those standards?
- If not what happens?

**Delivery agency – User**

- Do users have a representative organisation?
- How do users monitor service standards?
- What is the relationship between users and deliverers? If users lack adequate muscle why is this? What can be done?

**User – Enabling Agency**

- Is the relationship adequately developed to give a greater voice to users, especially poor people?
- If a stronger direct link is needed should this be through:
  - i representational committees to channel information both ways (cf Electricity Consumers’ Committees in the UK)
  - ii governing bodies to act as brokers of information but with an added authority function (cf UK school governors)
  - iii quasi-market relationships such as money or vouchers from the enabling agency to enable users to choose which delivery agency to use

**Identification of Strategic Options**

8. The flow diagram in Figure 7 (based on the UK government “Prior Options Review” process for executive agencies) describes the process for identifying strategic options for service delivery. Each of the potential options then needs to be assessed against the criteria set out in Table 12.

9. Figure 7 also illustrates how decisions on strategic options necessitate intervention in other areas such as structure and systems.

Figure 7: Process for Identifying Strategic Options

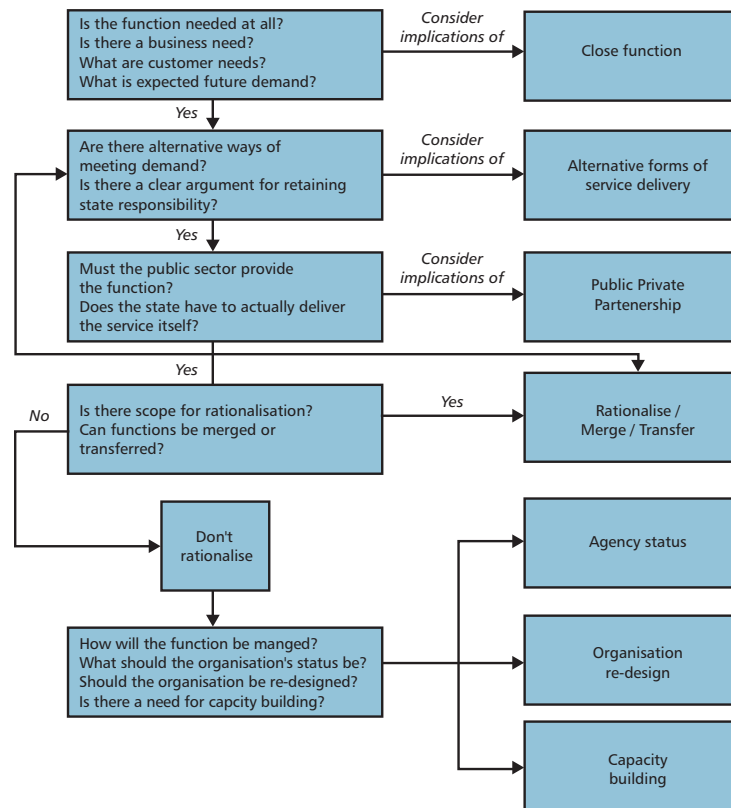


Table 12: Assessing Options

**Strategic need**

- does the option meet the strategic need?
- will an option that relies on the market mechanism deliver the desired social outcomes?
- will the option improve service delivery to poor people?

**Affordability**

- is the option affordable?
- can it be funded through public sector revenues, third party revenues, sale of assets etc?

**Value for money**

- does the option provide value for money?
- what are the costs?
- can value for money be enhanced through improved efficiency, better risk allocation and/or better asset use?

**Feasibility**

- is the option feasible?
- is there a private sector market?
- will private sector bidders be able to access funding?
- is the option politically feasible?

**SWOT analysis**

- on the basis of the above assessments, what are the strengths and weaknesses etc of each of the options?

### Box 9: Tanzania - Civil service reform to improve service delivery

Phase 1 addressed the basics: restoring basic records and information systems, reducing staff to an affordable level, rationalising and raising pay to motivate remaining staff. Staff cuts paid for pay increases of up to 70%. Phase 2 focuses on improving service delivery. It includes delegating responsibility for some services to local government; introducing a service focused management culture into service providing departments, with published standards; and a bigger role for NGOs and the private sector.

### Box 10: Jamaica - Registrar-General

In Jamaica the Office of the Registrar General was given agency status and was able to use its own funds to finance establishment of several regional offices. This improved access for local populations and also generated greater revenues by cutting out middle-men who had used the Office's former inaccessibility to create a shadow-economy in birth, death and marriage certificates.

## Organisational interventions - Systems

### 10. Systems include:

- business planning processes
- financial management systems\*
- management information systems\*
- human resource management systems
- asset management systems

11. A lack of clear and consistently applied systems can de-motivate staff. Without clear objectives it is hard for individuals to direct their efforts and assess their contribution; lack of transparency about the criteria for business decisions creates uncertainty and unease; and not knowing when you will next be paid – and how much – can be most de-motivating of all. The introduction of revised systems can be an effective way to force behavioural change. It can lead to changes in procedures and practices which could not be introduced without radical systems reforms.

### Business planning processes

12. Strategic planning is essential in setting an organisation's goals and developing strategies and tactics to achieve them. The process of joint "visioning" with partner organisations can be a powerful way of gaining agreement to new strategic goals. Strategic planning can take place at a number of levels (figure 8). Team-based business planning, including junior members of staff, is a highly effective team-building activity, helping team members at all levels to see where their individual contribution fits in and the need for co-operation to achieve team success.

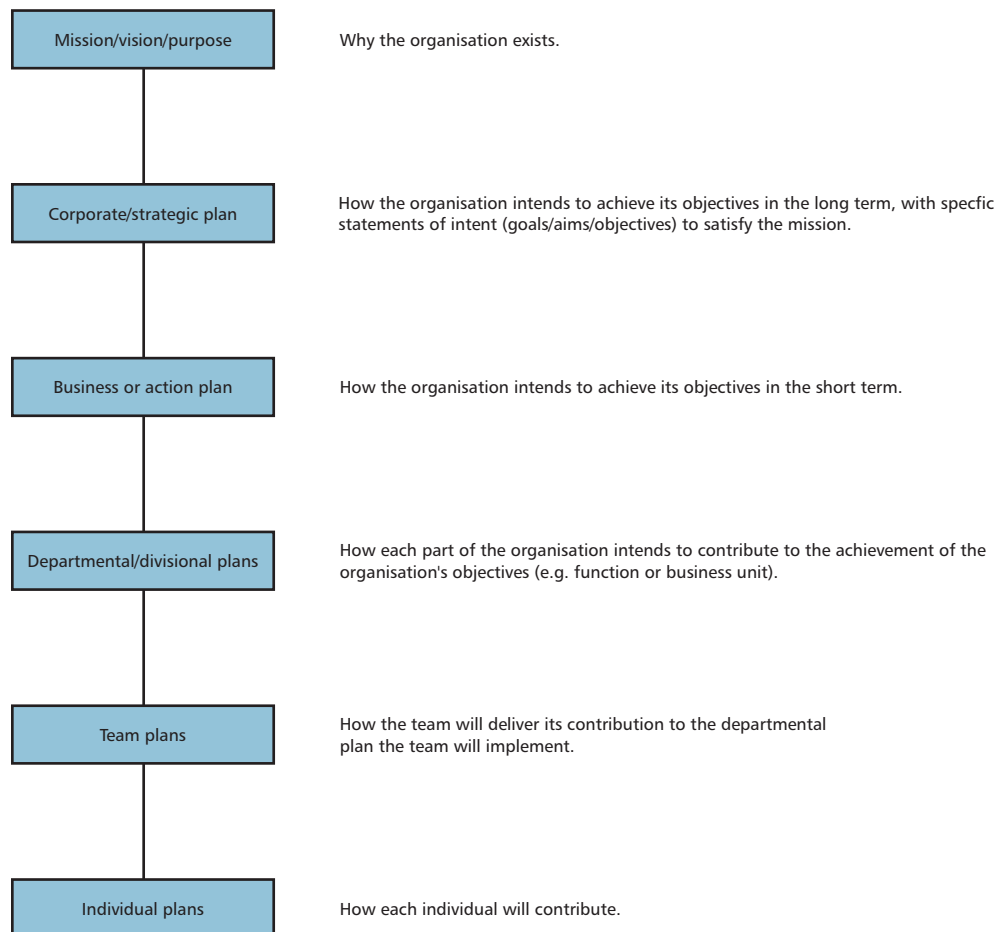
*Reforming some systems may need expert advice.*

*People work better within clearly defined systems. An effective organisation needs...*

*...good business planning systems...*

\* It is strongly recommended that you obtain expert advice from a governance adviser or qualified consultant before embarking on an intervention involving financial management or management information systems.

Figure 8: The planning hierarchy



#### Box 11: Uganda - Improving Access to the Courts

The logjam of cases constituted a major obstacle to poor people's access to justice. Ineffective communication and coordination between the criminal justice agencies was the main cause of delay. A Case Management Committee was set up comprising senior local representatives of the various agencies - police, probation, prosecution, prisons, magistracy and judiciary. It meets monthly to identify causes for delay in specific cases; to agree solutions with the institution concerned; and to monitor implementation and impact of the agreed action.

Action taken to cut delays includes:

- better control of case files
- statistical reports to identify bottlenecks
- trials held on consecutive days to reduce adjournments
- steps to encourage better witness attendance

In the first year, the number of cases disposed of has tripled and the project will now be rolled out nationally.

### Financial management systems

13. Financial management systems need to be clearly linked to business planning systems. They are the key to ensuring that the objectives of the business plan can be met from available resources, and that resources are correctly allocated and properly spent. Further guidance is provided in “Understanding and reforming public expenditure management” (DFID March 2001).

*...linked to robust financial management systems...*

### Management information systems

14. Information systems must be co-ordinated with current and future business and policy requirements. Further guidance is available in “Good practice in developing sustainable information systems” (DFID & CCTA, March 1998).
15. The key is to be clear about what information needs to be captured and why, and to keep requirements to a minimum - “Why do we need this? What will it tell us? Do we have the capacity to use it? Is there a clear demand for improved management information?” IT solutions are not always the answer. There may be a need to develop skills in collecting and interpreting information and using it as a basis for decisions.

*...and backed up by effective management information systems.*

## Organisational interventions - Human Resources

16. Changes can include:
  - performance management
  - incentives
  - development and training
  - best practice and benchmarking

*Better human resource management can improve performance...*

### Performance management

17. A performance management system:
  - lets individuals know the level and quality of performance which is expected from them
  - enables individual performance to be assessed
  - can provide a basis for making decisions on pay, and promotion

### Incentives

18. The question of incentives and their influence in shaping behaviour of individuals at work is important. In some cases, non-financial incentives such as access to training and development, or greater control over the working environment, may be effective. As a minimum, study the existing incentive structure and consider whether or not it encourages (or at the least does not discourage) the actions which need to be taken to meet key outcomes. Performance related pay provides one way of rewarding different levels of performance from individuals or teams (the trend now is toward team-based rewards), and can act as a motivating factor in some circumstances. But it will not work without reliable performance measurement systems and these are often lacking.

*...by getting incentives right...*

### Development and training

19. Any change programme will give rise to development and training needs. These must be identified and met in a structured way to ensure the right people get the right development at the right time. It is important to identify the skills gap – ie. the gap between the skills currently available and those required to meet future objectives.
20. The process can take place at a number of levels: individual, team, departmental, organisational, and is an important part of the overall capacity building context highlighted in the Introduction.

*...developing and training staff...*

*...and setting standards of performance.*

### Best practice, and benchmarking

21. These can be highly effective ways of encouraging pressure for change and stimulating development. The usual technique is to break the system or process into its component parts to see:
  - what works
  - what doesn't work
  - what could be done better
22. Visits to other organisations and study tours to gain exposure to new ideas and methods can be helpful in determining best practice. Replacing the organisation's own standards of performance with external standards or benchmarks can have a salutary effect.

### Organisational interventions - Structures

*Structural interventions can underpin systems and HR interventions*

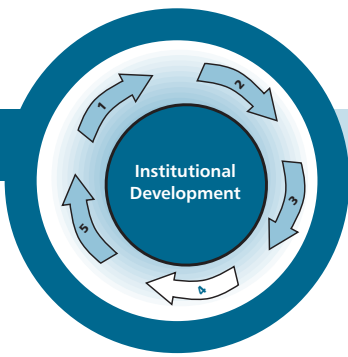
23. Structural interventions should never be offered on their own: the reason for structural change must always be to improve performance and/or change behaviour, and these objectives need other sorts of support under the systems and human resources headings. Structural interventions can be a powerful means of improving service delivery.

### What intervention, if any, will solve the problems?

24. The main issues and questions are summarised in table 13 below.

**Table 13: Designing the intervention**

1.	Major institutional strengths and weaknesses and their linkage to the overall development goals. What are the "rules of the game". Which weaknesses could have the biggest impact on achieving goals?
2.	What are the underlying causes of institutional weakness?
3.	To what extent are such causes susceptible to intervention? Consider the history of previous reform and achievements. Consider the motivations of key stakeholders.
4.	If the underlying causes of weakness are not susceptible to intervention or the motivation of key stakeholders is low, reassess the scope and objectives of the project.
5.	Which interventions might best start the process of change and which are likely to have most impact on achieving development goals?
6.	Map out the linkages and interdependencies between possible interventions.
7.	Assess: <ul style="list-style-type: none"> <li>• what actions have to be taken to secure specific outcomes?</li> <li>• who will have to take such actions?</li> <li>• what is the likelihood of key players taking the appropriate action?</li> </ul>
8.	What critical targets or indicators will signal progress on chosen interventions?
9.	What are the major risks to achieving outcomes and how can they be managed?



## 4 IMPLEMENTATION

How do we implement the change programme?

### Chapter Purpose

Read this chapter to understand:

- the role of the programme manager/adviser
- the roles of the change sponsor and change agents
- how to design a change programme
- how to manage change
- how to maintain the stakeholder consensus
- how to revive a programme that has stalled

1. Having agreed on the direction of change, the next step is to agree on how to take the changes forward. The complexity and difficulty of institutional change, and the time it takes, makes it especially liable to loss of direction and loss of key support. This chapter explains the roles of the main players; how to devise a strategy and a programme for change; and how to manage change with a special emphasis on the need to keep stakeholders on board. And because programmes can stall, it looks at some options for their resuscitation.

### The programme manager/adviser role

2. Programme managers and advisers will not be active players throughout the change process but will have critical roles at the following points:
  - ensuring that there is an adequate implementation plan (see below)
  - selecting appropriate support processes and personnel
  - nurturing ownership of the process by the institution, including establishing a relationship with the change sponsor (see below)
  - monitoring and reviewing implementation
  - helping to plan for longer term sustainability

*Programme managers and advisers have critical roles at certain points.*

### The key players locally

3. There are three key roles in a change process as shown in figure 9.

Figure 9: Roles in Change Management



## The change sponsor and change agents

### The sponsor

*The change sponsor has a key role...*

*...support for the sponsor is a key role for DFID staff.*

*But remember that sponsors can move on before the job is finished.*

*Change agents should be identified at the start...*

*...but new change agents may take over later.*

4. The sponsor's role is critical. This is a person at the top of the organisation who undertakes leadership of the change programme; secures public and political commitment; deals with critics; and decides how to solve problems. As work proceeds it will be crucial to develop a good working relationship: supporting the sponsor is one of the adviser's most important tasks.
5. A sponsor's lot is not always a happy one, what with having to contend with cynicism, negativity and criticism from opponents of reform, whilst continuously presenting a positive face. As a leader the sponsor may not be able to confide in colleagues about these difficulties and this can easily lead to a loss of confidence and commitment. The adviser can provide support by maintaining regular contact and being available to discuss issues. Contact does not have to be frequent but should be regular and reliable. Face to face contact is best, but telephone discussions are also useful. Additional support can be provided if necessary by a consultant.
6. Don't put all your eggs in one basket. The role of change sponsor often resides in one individual. While the personal drive and commitment of an individual can make a tremendous difference during the implementation phase it is important to build up links with a wider group to ensure that the loss of that individual does not derail the whole process. It may also be necessary to consider strategies for working with opponents of the change.

### The change agent

7. The change agent is the individual (or group) who manages the implementation of the change programme. Different change agents may need to take over at different stages; for example, a managing agent may fill the role to start with, handing over to an internal team later on. The agent or agents for the first phase should be identified before the design is finalised.

### Change participants

8. Change participants are everyone affected by the change; the level of their participation and commitment is likely to vary widely.
9. As figure 9 shows, the roles can and often do overlap.

## Designing the change strategy and programme

### The strategy

10. Policies and institutions are created by people; they emerge from existing policy paradigms, politics, and the power and influence of different stakeholder groups. Reform therefore requires investment in the management of change, and a strategy that focuses on the process, or the means by which pro-poor policy and institutional reforms can be brought about. A management of change strategy will entail:
  - Planning for change – reflecting, developing a vision and building concepts
  - Identifying 'change sponsors' – individuals or groups who will lead change
  - Recognising and managing barriers to change – predicting the reaction of individuals and groups to the proposed changes. Opposition can be expected from people who are either unable to accept new ways of doing business, or from groups of people who stand to lose from new policy measures
  - Building support for reform and managing key stakeholders - explaining the need for change and the ways in which people will benefit, securing the participation of poor people
  - Reforming organisational structures - to accommodate new ways of working
  - Mobilising resources - political, financial, managerial and technical resources are needed to sustain reform
  - Consolidating change - ensuring that the motivation for change is maintained and, later, mainstreaming the new way of working as part of normal procedure

*Managing change is about managing people...*

*...containing opposition and building and keeping support...*

*...and mobilising resources.*

### Box 12: Involving stakeholders in change strategy in India

The Bombay Electricity Supply Company was concerned about high losses. They set up committees in a number of villages, and made them responsible for paying the electricity bill for the whole village. The committee in turn billed villagers, and was given power to read meters, and disconnect and connect. The Company paid the committee a bonus related to the percentage of money due that they managed to collect. After 6 months revenue had more than doubled.

### The programme

11. A change programme needs a clear project plan. The change agent should be responsible for producing it, and for identifying who will monitor implementation. The plan should include:

- *objectives and performance indicators*: measures and indicators should be qualitative as well as quantitative. Failure to hit the indicators will give early warning that implementation is not going according to plan
- *milestones and opportunities for celebrating success*: early successes are particularly valuable in building support and bringing sceptics on board. Ongoing successes maintain momentum
- *key dependencies*: actions dependent on the successful completion of earlier stages of the plan should not begin until those earlier stages are satisfactorily accomplished
- *communication*: arrangements for keeping key stakeholders informed of developments
- *risk assessment and management*: both for the overall programme and for the individual elements, re-assessed at regular intervals to ensure that the chosen approach is still appropriate. It should include:
  - i contingency plans to deal with foreseen risks
  - ii flexibility to deal with unforeseen risks. This means building in slack at certain key points, particularly between major stages in the programme
- *final evaluation or Output to Purpose Review (OPR)*: look for successes and plan a celebration of achievements to create a positive impetus for further action
- *an exit strategy*, realistic in terms of resources, including:
  - i maintaining momentum: does the local leadership have the skills and resources to take the work through the next phase? If there are difficulties is there a case for additional support? Or for scaling down over-ambitious plans?
  - ii monitoring and evaluation: embedded processes should be in place
  - iii provision for action plans to be developed with the sponsor and change agents to follow-up issues identified in the final evaluation

*The change agent should produce a project plan, and identify someone to monitor progress.*

### Balancing and managing stakeholder interests

Conflicts may arise during implementation when different stakeholder interests disagree about reform initiatives. Stakeholder negotiation - also known as stakeholder engagement or consensus building - is a way of resolving such issues through a process of discussion and/or decision-making among the different parties.

*Conflicts between stakeholders may need to be resolved as implementation proceeds...*

*...consensus building is a way of resolving these conflicts...*

**Table 14: Principles of consensus building**

1.	A full stakeholder analysis (including those who may contribute to resolving or exacerbating disputes)
2.	Accommodation of cultural differences in the design of capacity building and negotiating strategies
3.	Acknowledging and transforming perceptions
4.	Opening communication channels
5.	Developing a level playing field for genuine collaborative negotiations
6.	Building rapport
7.	Focus on underlying needs and motivations
8.	Identifying and exploiting the common ground
9.	Brainstorming creative options and widening field of potential solutions
10.	Facilitation of mutual gains
11.	Testing agreements for financial, technical and democratic feasibility

Conroy et al, after Warner, M., 1998.

*...involving both those with the power to block progress...*

*...and the poor - our main constituency.*

13. It is important to involve powerful stakeholders and decision-makers from the beginning, to avoid the risk of their blocking negotiations and attempts at implementation. But at the same time consensus building is one way of balancing the influence of powerful interest groups with that of less powerful groups. It does not on its own address the fundamental imbalances in power that allow some groups to have more influence on the reform process than others, and separate initiatives may be needed to promote poor people's contributions and influence.

#### Box 13: Setting up a Road Fund in Lao PDR

The government held a workshop to consider setting up a fund for road maintenance. A broad cross-section of government and civil society was invited. It was difficult to facilitate discussion as most participants were afraid to speak out in front of Provincial Deputy Governors. The solution was to put the Deputy Governors into one discussion group, letting other participants form their own groups; and then to have the other groups report back first. In the event all the groups reached similar conclusions.

*The process should be locally led, drawing on local institutions and mediators...*

*...and should help to develop local capacity, for the benefit of more than just the immediate programme*

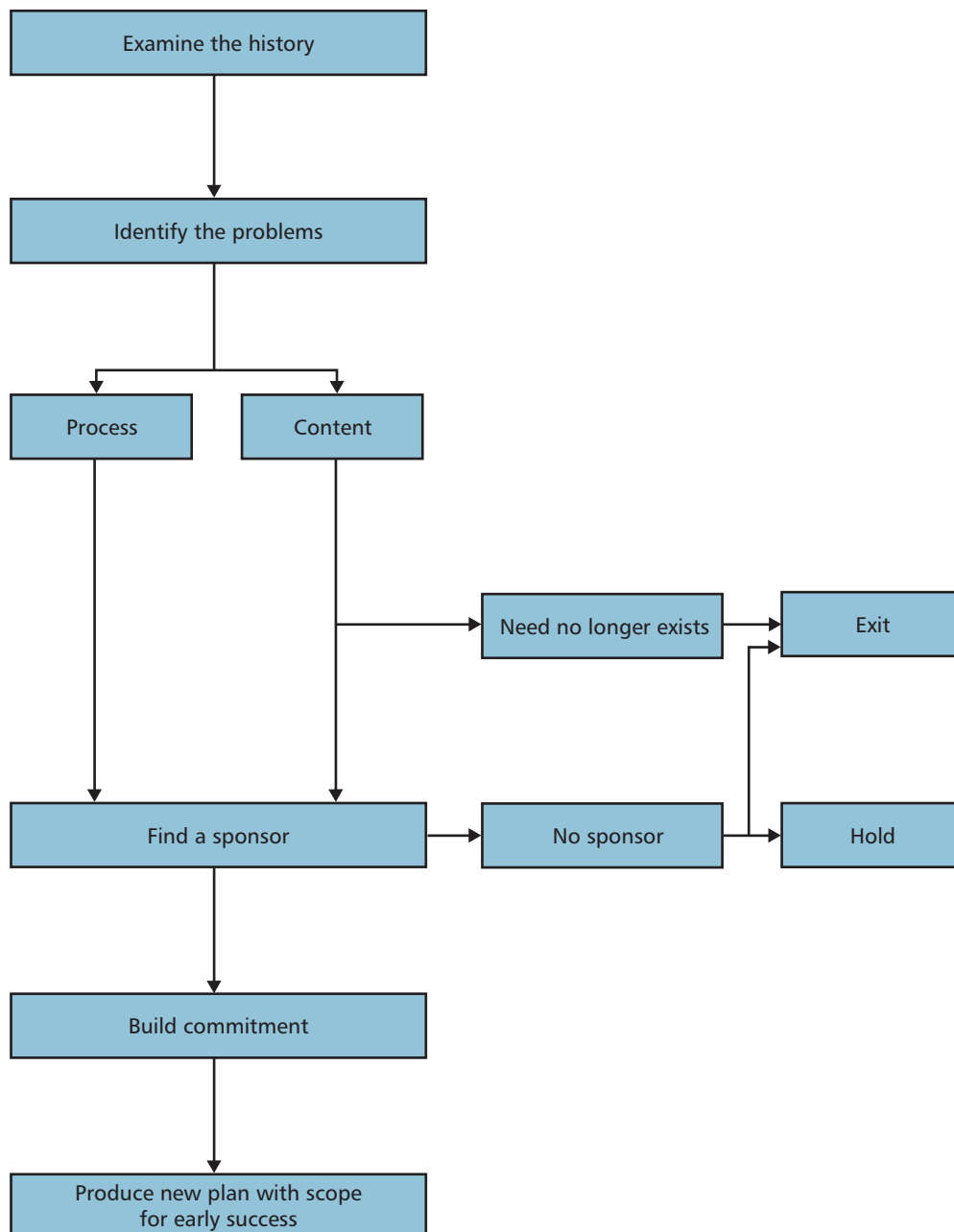
14. A key part of the consensus-building approach is to identify appropriate capacity building options. These may include:
- building on customary approaches to dispute resolution (eg. by providing training in negotiation skills)
  - training community leaders in ways of mediating conflicts between their community and external organisations
  - training legal representatives in facilitation and mediation to find 'win-win' solutions (eg. local land mediators)
  - identifying the incentives that can motivate people to co-operate and support the reform process. In many cases, a compensation package may need to be negotiated to secure the support of potential losers
15. In-country capacity to manage and negotiate different stakeholder interests is a valuable asset, worth developing not just for the immediate programme but for wider purposes – nearly all successful reform initiatives are driven by change management teams trained in conflict management, negotiation and facilitation.

## Reviving stalled change programmes

16. Programme managers/advisers are often faced with stalled change programmes. The steps to take in dealing with these situations are shown in Figure 10.

*Stalled programmes may respond to a kiss of life...*

Figure 10: Reviving stalled change programmes



### Examine the history

*Talk to stakeholders...*

- talk to major stakeholders, senior management and a representative selection of staff at all levels
- ask about feelings about and reactions to change as well as the facts of what happened; change is about behaviour and attitudes

### Identify the problems

*...find out what went wrong...*

- analyse the findings to identify the problems
- categorise the problems into two main areas: content ( ie. the targets for change) and process ( ie. how the change was implemented)

*...if the aims are still valid look for a sponsor...*

- in looking at the content issues check that there is still a compelling reason for change. If there is not then exit from the programme
- in analysing process problems look for indicators of some of the classic change implementation problems

### Find a sponsor

- if the target for change is still valid then identify a sponsor for the change process
- if you cannot find a committed sponsor then either exit from the programme or put it on hold until a sponsor can be found. It is better to put a programme on hold explicitly than to press on when there is little hope of success; the latter course will make it even harder to implement any change in the organisation in future

### Build commitment

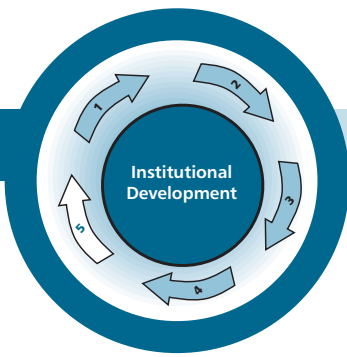
*...build on the lessons from the past...*

- repeat the participative phases of the diagnostic process
- feedback to participants their views on the stalled change and the action that will be taken to ensure the problems do not recur
- involve stakeholders in implementation

### Produce a new plan

*...and allow sufficient time and resources to overcome resistance to change.*

- include opportunities for early success and plans for publicising and celebrating them
- allow twice as much time and resource as you think necessary for communication; in stalled projects there are many more protestors, passengers and prisoners to be won over than in new projects



## 5 MONITORING AND EVALUATION

How do we know we are achieving our goals?

### Chapter Purpose

Read this chapter to understand:

- factors to consider in planning monitoring and evaluation.
- how to use monitoring and evaluation to support the change process.
- using the evaluation process to support the exit strategy.

### Developing a monitoring and evaluation process

1. Monitoring and evaluation are especially important in the case of long-term process programmes which need to be tweaked as they proceed. They need to be planned for and designed at the start, in conjunction with other interested parties – the institution, DFID colleagues, other donors. What are the issues of most importance to them? How much detail is needed? What type of information will they be most interested in eg. financial? qualitative? How should it be presented to have most impact? Factors to consider are:

#### Purpose

- monitoring and evaluation can have different purposes at different stages: eg. to check progress towards desired outcomes; to learn lessons about the process; or to assess institutional readiness to move onto a new phase

#### Process

- are the objectives and benefits measurable in hard financial terms, or assessable in qualitative terms, or both?
- what and how much information is already available (eg. management accounts; staff appraisal reports) and can it be used for monitoring and evaluation purposes?

#### Resources

- what resources are available?
- who will do it?
- how much time and resources do other stakeholders (senior managers, providers of management and performance information) have to contribute?
- how willing are other stakeholders likely to be to spend time on evaluation?
- are people accustomed to completing questionnaires and/or being interviewed? If not, what will be their likely reaction? Are they already suffering from “survey fatigue”?
- will the cost of collecting the information exceed the benefits from doing so?

*Monitoring and evaluation should be built in from the outset...*

*...decide what to monitor...*

*...and why...*

*...how to do it, using information already available as far as possible...*

*...agree who does it and at what cost.*

*Build on the diagnostic work to create a baseline...*

### Identifying the baseline

2. Before implementation begins it is important to establish a baseline from which to measure progress towards project objectives. Much of the information for this will be available from the diagnosis but there may be some areas where more information will be needed. Make sure that baseline material is available for all the objectively verifiable indicators (OVIs) in the logframe.

*...try to measure outcomes not inputs...*

### Measuring outcomes

3. The tendency in institutional change programmes is to develop quantitative rather than qualitative success measures. This tends to lead to measures of inputs, which are easily quantified, rather than outcomes, which although harder to measure are what really matters. It is important to help the institution/organisation and individuals to focus on outcomes.
4. Final outcomes should be the basis for evaluating success, but many of these will be some distance in the future and the causal links with institutional development can be difficult to make. Proxy indicators can be useful at earlier stages in the process. They should be seen as a monitoring not an evaluation tool. A good logframe should include OVIs which incorporate proxy indicators.
5. Proxy indicators tend to be inputs and processes rather than products, outputs or outcomes. Examples include:
  - actions completed to timetable eg. introduction of performance management system
  - efficiency targets eg. monthly accounts produced within two weeks of month end

*...using proxy indicators where that helps.*

*Problems identified by the monitoring process need to be resolved...*

### Dealing with problems in implementing change

6. A robust and thorough planning phase should keep problems to a minimum, but nevertheless monitoring visits are likely to identify some. The most common ones are described below, with suggestions about remedial action.

*...eg. lack of top level commitment...*

#### Lack of top management commitment

7. The top management of the organisation must believe that the status quo is untenable and that change is essential. Without the commitment of at least 75% of the leadership, the change programme is likely to fail<sup>8</sup>.
8. Ways in which individuals can be persuaded to support change include:
  - identified personal benefits
  - peer pressure
  - indications of the consequence of not changing
  - sharing examples of successful change in similar situations
  - reinforcement of positive behaviour
  - removing some of the major causes of resistance if possible

<sup>8</sup> Kotter, John Leading change: *why transformation efforts fail* Harvard Business Review March – April 1995

### Departure of the sponsor

9. The departure of the sponsor during a change programme is a serious threat to its success and an alternative sponsor needs to be found as soon as possible.
10. The impact of a sponsor's departure will depend upon:
  - the reason for the departure: did s/he leave for positive (eg. promotion) or negative (eg. the sack) reasons? Negative departures will taint the change programme; people do not like to be associated with failure
  - the stage the programme is at; if the conclusion is near it will be easier to keep the programme going, especially if the sponsor's departure was positive
  - the degree to which top management have bought in to the programme. If they are all fully committed they may be able to share the sponsorship role, at least in the interim

*...loss of the change sponsor...*

### Insufficient communication

11. Communication is critical. It must be frequent and regular using a wide range of means and face-to-face as often as possible.
12. Messages about the content and process of change should be incorporated into day-to-day activities such as team meetings and other work discussions as well as being the subject of special communications.

*...poor communication...*

### Behaviour not modelling the message

13. This is one of the most common faults of senior managers, who pay lip service to a change programme but fail to modify their own behaviour to act as role model for the change. This can seriously undermine the programme: staff will become increasingly cynical and will follow the behaviour not the message. Lack of role modelling from senior managers must be confronted; this is best done by the change sponsor.

*...senior staff who pay lip service to change but carry on as before.*

### SUMMARY OF TOOLS TECHNIQUES

#### 1. ANALYSIS AND DIAGNOSIS: OVERALL INSTITUTIONAL FRAMEWORK

##### 1/1 Assessment of Institutional Capabilities

A tool developed by the World Bank for "diagnosing institutional capability for implementing and sustaining a policy". The toolkit provides a structured approach for asking questions, analysing results, and identifying critical institutional issues.

##### 1/2 Impact Analysis

A structured workshop for representatives of all groups concerned with the change process, held before the process begins. It helps to get all stakeholders involved; to identify objectives and predicted areas of impact; and to build stakeholder consensus and commitment. It can also produce innovative suggestions for evaluation measures.

##### 1/3 Sponsor Evaluation

This is a questionnaire which looks at key aspects of the change sponsor's attitudes and readiness to change.

##### 1/4 Change Forecasting

A tool which is being developed within DFID to assist in the development of Country Assistance Plans. The tool will assist in the identification of interventions which will promote change; in the measurement of performance and in the assessment of particular sectors where reform may take place.

#### 2. ANALYSIS AND DIAGNOSIS: THE ORGANISATION IN ITS INSTITUTIONAL CONTEXT

##### 2/1 Open Systems Model

The model recommended for a diagnosis of the strategic/institutional environment, and organisational problems.

##### 2/2

This describes 7 key interdependent organisational variables that need to be taken into account in organisational design. It forces practitioners to think not only about the "hardware" of an organisation - its strategy and structure - but also about the "software" - its management style, systems and procedures, staff, skills and shared values (ie. culture).

##### 2/3 SWOT

SWOT analysis is a tool for assessing and communicating the current position of an organisation or a particular reform option in terms of its internal Strengths and Weakness and the external Opportunities and Threats it faces.

##### 2/4 Organisational Elements Model

This demonstrates the relationship between inputs and results. It looks for linkages between all the elements of the process, from inputs through to outcomes; if the chain breaks at any point this indicates there is no connection between the elements eg. there may be inputs which are not contributing to the creation of outputs, and not producing any return on investment.

##### 2/5 Problem Tree Analysis

This helps to illustrate the linkages between a set of complex issues or relationships by fitting them into a hierarchy of related factors. It is used to link issues which contribute to an institutional problem, and to help to identify the underlying or root causes.

### 3. REVIEW AND DESIGN

#### 3/1 Risk Management Matrix

This identifies risks and their likely impact, and strategies for responding to different degrees of risk.

#### 3/2 Benchmarking

A comparison of processes in a different context as a basis for the design of a series of interventions.

#### 3/3 Business Process Reengineering

This involves the fundamental review and redesign of an organisation's business processes. It aims to move from traditional division of labour towards the creation of integrated cross-functional work processes. The underpinning philosophy is that such integrated work units are more flexible and can respond more readily to customer and service demands.

### 4. IMPLEMENTATION

#### 4/1 Change Management

This provides a note of the five key elements to take into account in change management and a checklist of activities to carry out for a major change programme.

#### 4/2 Force Field Analysis

A technique for analysing the forces that help or obstruct change. It can be useful, as part of drawing up a strategic change plan, in examining how feasible a strategic objective is, and in identifying areas of focus for any associated action plan.

#### 4/3 Burke Litwin Model

The "Burke-Litwin model" is a model of organisational change and performance. It provides a link between an assessment of the wider institutional context and the nature and process of change within an organisation.

#### 4/4 Stakeholder Management

How to identify the individuals or groups who will either be affected by the changes or have the ability to impact on the change process; and developing a strategy to manage these stakeholders.

### 5. MONITOR/EVALUATE

#### 5/1 EFQM Excellence Model

A framework for assessing the aspects of performance which make an organisation successful.

## Department for International Development

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty.

The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals, to be achieved by 2015.

These seek to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality

- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

# DFID

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