

**ASIAN DEVELOPMENT BANK
Operations Evaluation Department**

ANNUAL EVALUATION REPORT

ON THE

**2007 ANNUAL EVALUATION REVIEW: THE CHALLENGE OF
CAPACITY DEVELOPMENT**

In this electronic file, the report is followed by Management's response and the Board of Directors' Development Effectiveness Committee (DEC) Chair's summary of a discussion of the report by DEC.



Annual Evaluation Report

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2007 Annual Evaluation Review: The Challenge of Capacity Development

Operations Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADTA	–	advisory technical assistance
AER	–	<i>Annual Evaluation Review</i>
CAPE	–	country assistance program evaluation
CD	–	capacity development
DEC	–	Development Effectiveness Committee
DILG	–	Department of Interior and Local Government, Philippines
DMC	–	developing member country
DOR	–	Department of Roads, Nepal
DPWH	–	Department of Public Works and Highways, Philippines
EA	–	executing agency
ECG	–	Evaluation Cooperation Group
IES	–	impact evaluation study
Lao PDR	–	Lao People's Democratic Republic
MEF	–	Ministry of Economy and Finance, Cambodia
MfDR	–	Managing for Development Results
MTEF	–	medium-term expenditure framework
OECD-DAC	–	Organization for Economic Co-operation and Development's Development Assistance Committee
OED	–	Operations Evaluation Department
PCR	–	project/program completion report
PFM	–	public financial management
PIU	–	project implementation unit
PMU	–	project management unit
PPER	–	project/program performance evaluation report
PRC	–	People's Republic of China
RSCG	–	Capacity Development and Governance Division
SAPE	–	sector assistance program evaluation
SES	–	special evaluation study
SWAP	–	sector-wide approach
TA	–	technical assistance
TPER	–	technical assistance performance evaluation report

NOTE

In this report, "\$" refers to US dollars.

Key Words

2007 operations evaluation department evaluation activities evaluation findings, evaluation knowledge management activities, performance findings sovereign projects programs, capacity development success drivers deterrence factors, Cambodia Nepal Philippines capacity development education public financial management roads governance

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The guidelines formally adopted by OED on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of the management of OED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

Attachments: Management Response
 DEC Chair Summary

EXECUTIVE SUMMARY

The purpose of the *Annual Evaluation Review* is to (i) outline evaluation activities of the Operations Evaluation Department (OED) over the preceding 12 months; and (ii) summarize performance of the Asian Development Bank's (ADB) sovereign projects and programs as revealed by independent evaluations, and draw lessons from the findings to guide future ADB operations. The status of actions taken on past evaluation recommendations is now reported in a companion document. This year, the theme of the *Annual Evaluation Review* is a summary of evaluation findings on capacity development (CD).

The most noteworthy features of OED's activities in the previous year were the following:

- continued use of a rolling 3-year work program based on extensive consultation;
- increased emphasis on country and sector program evaluations and thematic and special evaluation studies of strategic importance, with an increased focus on timing to ensure that evaluation findings are available when needed to feed into ADB's decision-making processes;
- approval of new evaluation guidelines covering sovereign and nonsovereign operations and country assistance program evaluation;
- public disclosure of evaluation approach papers and working papers introduced to stimulate earlier stakeholder input;
- good progress made in reducing staff vacancies;
- a knowledge management unit established to increase the dissemination, usability, and use of OED findings;
- introduction of an Evaluation Information System (<http://evis.adb.org/>), upgraded evaluation website (www.adb.org/evaluation), and a range of new knowledge products;
- entering a new phase of evaluation CD with negotiation of a memorandum of understanding to support the Shanghai International Program for Development Evaluation Training and formulation of a regional technical assistance; and
- continued involvement in the Evaluation Cooperation Group of the multilateral development banks and the Evaluation Network of the Development Assistance Committee of the Organization for Economic Co-operation and Development.

The findings on the performance of ADB's sovereign projects and programs show that of the 19 projects/programs evaluated in 2006, 11% were rated *highly successful*, 63% *successful*, 21% *partly successful*, and 5% *unsuccessful*, better than the long-term average of 65% *successful* (including those rated *highly successful*), 27% *partly successful*, and 8% *unsuccessful*. The findings also show a long-term trend towards improved performance that started in the mid-1980s. The long-term results show that projects are more likely to be successful in certain sectors and countries. The performance of program loans was very low from 1984 to 1991 but has improved since then to approach the success rate of projects.

Factors within ADB's control that are commonly associated with project success are (i) thorough project preparation; (ii) adoption of a broad sector approach, which provides flexibility through a less rigid design; (iii) close coordination among funding agencies; and (iv) administration by the resident mission. Factors external to ADB that improve the chances of project success include (i) strong ownership by the government, (ii) satisfactory institutional capacity of the executing agency, (iii) strong sense of beneficiary ownership fostered through extensive participation, (iv) timely availability of counterpart funds, and (v) existence of a conducive policy environment.

For program lending, common success factors within ADB's control are (i) consistency of reform outcomes with the government's reform agenda and priorities; (ii) sufficiency of analysis and dialogue; (iii) policy change consensus among decision makers and stakeholders; (iv) coherence of program design and policy matrix; (v) execution of focused, manageable conditions prior to program start-up; (vi) suitability of executing agency capacity; and (vii) the likelihood that direct and indirect reform costs were identified and met by the program or by counterpart funding. Conversely, factors that lessen the chances of success are (i) insufficient consideration of macroeconomic and wider sector policies; (ii) lack of counterfactual analysis, and poorly understood outcome and policy alternatives; (iii) complex and ambitious reforms and overly complex design; and (iv) backloading of conditions to second and third tranches.

Turning to the CD theme, the findings from OED's ongoing and existing CD-related evaluation studies show mixed results, with no consistent patterns of success across sectors, countries, regions, or time. However, consistent factors affecting success (success drivers) can be identified and grouped into four categories—design/quality-at-entry factors within and beyond ADB's control, and implementation factors within and beyond ADB's control. These are shown below. Details of each factor are discussed in the main text.

Design/Quality-at-Entry Factors within ADB's Control	Design/Quality-at-Entry Factors beyond ADB's Control
<ul style="list-style-type: none"> • Systems to measure and monitor CD • Strategic direction with realistic CD objectives • Adequate diagnostic baseline assessments at all CD levels (individual, organizational, network, and contextual levels) • Long-term continuity, careful phasing/sequencing, and exit strategy • Appropriate mix of modalities • Mainstreaming project implementation/management unit activities into target agencies' normal operations • Adequate staff time and skills, and financial resources • Strong commitment of and ownership by target agencies • Cooperation and harmonization with other development partners 	<ul style="list-style-type: none"> • Conducive political environment • Conducive economic/fiscal environment • Conducive policy/institutional environment • Conducive sector capacity

Implementation Factors within ADB's Control	Implementation Factors beyond ADB's Control
<ul style="list-style-type: none"> • Sufficient and qualified staff for implementation and supervision • Flexibility during implementation and supervision • Selection of qualified consultants and limited delays in implementation 	<ul style="list-style-type: none"> • Continued conducive enabling environments • Continued commitment of and ownership by target agencies • Continued cooperation and harmonization with development partners

An important conclusion on CD is that doing less but doing it well is likely to produce better results. However, even less ambitious CD initiatives need to be supported by clear results frameworks, good diagnostics to identify and mitigate risks outside/beyond ADB's control, use of the right mix of modalities, long-term engagement, and an inclusive participatory approach. Much still needs to be done by ADB to put the preconditions for good CD practices in place. The achievement of CD objectives would be enhanced through improved ADB staff skills in CD design and implementation, more time and qualified staff allocated to project and technical assistance supervision, reduced cumbersome implementation and supervision procedures, and greater involvement of resident missions.

Recommendations directed on ways to address some of the issues raised in these findings will be presented in OED's ongoing/forthcoming special evaluation study on CD. However, some pointers to possible future directions include the following:

- willingness to pilot alternative approaches to the traditional modalities of CD, particularly those that might be less resource intensive, and more country-led;
- incorporating focused CD strategies into country partnership strategies that take account of the resources required and available;
- basing CD strategies at the country level on sound diagnostics of existing capacities and barriers to improved capacities—this will require investments in acquiring/building ADB's staff skills in institutional analysis and the theory and practice of CD; and
- ensuring that ADB's *Medium-Term Framework and Action Plan for Integrating Capacity Development into Country Programs and Operations* is fully resourced, reviewed periodically, and updated as necessary.

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 Director General
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I. INTRODUCTION

A. Purpose and Objectives of the 2007 Annual Evaluation Review

1. The purpose of the *Annual Evaluation Review* (AER) is to (i) outline evaluation activities of the Operations Evaluation Department (OED) over the preceding 12 months; and (ii) summarize performance of the Asian Development Bank's (ADB) sovereign projects and programs as revealed by independent evaluations, and draw lessons from the findings to guide future ADB operations. The status of actions taken on past evaluation recommendations is now reported in a companion document. This year, the theme of the AER is a summary of evaluation findings on capacity development (CD).

B. Contents of the Report

2. The balance of this chapter summarizes the main OED activities in 2006 and analyzes the trends in achieving success in sovereign operations. It also presents some lessons emerging and issues affecting the success and failure of these operations. The importance of the CD theme is introduced in Chapter II, along with methods for assessing CD. Chapter III discusses the results from some of ADB's CD assistance, based on OED's ongoing and existing CD-related evaluation studies. Chapter IV identifies the main issues affecting CD results. Chapter V draws out the main conclusions and lessons for good CD practices.

C. Summary of Evaluation Activities in 2006

3. When OED became independent in 2004, the roles and reporting relationships of the Development Effectiveness Committee (DEC) of the Board of Directors, OED, and Management changed.¹ DEC's 2006 *Annual Report* indicated its satisfaction with ADB's operations evaluation activities.

4. **OED's Work Program.** OED's current 3-year rolling work program, prepared during the last quarter of 2005, covers 2006–2008. Preparation of the work program involved broad consultations with current and former members of DEC and Management, as well as with staff from the operations departments. OED's work program has evolved to become more relevant and strategic. DEC supports OED's gradual shift towards country and sector assistance program evaluations as well as thematic and special evaluations, while maintaining a required minimum of individual operations evaluations to continue to accumulate lessons. This results in a work program that is better sequenced and planned, allowing the results of one study to feed into another study or policy/program review. As an example, country assistance program evaluations (CAPEs) are selected in conjunction with operations departments bearing in mind the timetable for preparing new country partnership strategies. Some evaluation reports² were brought forward into the 2006 work program to provide input for ADB's reviews of policies. Having a rolling program helps OED, DEC, and Management to plan and be flexible concerning adjustments and refinements of priorities. For any year's work program, performance evaluation reports (project, program, and technical assistance [TA]) are selected by OED independently.

¹ OED began reporting directly to the Board through DEC. OED's role is to independently extract lessons and make recommendations for desirable improvements. Management's role is to decide which recommendations are acceptable and should be implemented. DEC's role is to guide Management on the priorities for change and improvement.

² ADB. 2006. *Special Evaluation Study on Environmental Safeguards*. Manila; ADB. 2006. *Special Evaluation Study on Involuntary Resettlement Safeguards*. Manila; and ADB. 2007. *Special Evaluation Study on Indigenous Peoples Safeguards*. Manila.

Sector assistance program evaluations (SAPEs), impact evaluation studies (IESs), and special evaluation studies (SESSs) are selected on the basis of suggestions from DEC, Management, operations and other departments, and/or within OED.

5. **Evaluation Methodologies.** To improve the consistency and quality of evaluation reports, guidelines for the evaluation of projects, program loans, TA grants, and CAPEs were issued in 2005 and published in February 2006.³ Since 2005, discussions with developing member countries (DMCs) and concerned regional departments on draft CAPEs have increased, and efforts have been made to provide a forum for the countries concerned so that they can identify areas in which they feel ADB needs to improve as a development partner. Guidelines for preparing performance evaluation reports on nonsovereign operations⁴ were largely completed in 2006 and published in February 2007;⁵ these guidelines were prepared to facilitate evaluations of these interventions by OED and are a step toward harmonizing ADB's evaluation procedures on nonsovereign operations with those of other multilateral development banks in the Evaluation Cooperation Group (ECG). These evaluations are in line with, and based on, the 2006 good practice standards of ECG for private sector evaluations. All guidelines will be updated periodically to reflect experience gained in ADB and reviews by ECG.

6. **Public Disclosure of Evaluation Approach Papers, Working Papers, and Evaluation Reports.** Beginning in 2006, all approved evaluation approach papers were made publicly available on the OED website (<http://www.adb.org/Evaluation/ongoing.asp>). Working papers and articles, which are documents presenting initial findings of ongoing evaluations or research relating to development effectiveness and current events, can also be accessed at <http://www.adb.org/Evaluation/working-papers.asp>. Evaluation reports are made publicly available immediately upon circulation to Management and the Board. Evaluations of nonsovereign operations are posted in a redacted form after commercially sensitive information is removed. OED's two annual reports, the *Annual Evaluation Review* and the *Annual Report on Portfolio Performance*, are made public after consideration by DEC. Management responses and the Chairperson's summaries of DEC discussions are posted on the web when they become available. A feedback system was built into the evaluation website in 2006 so that comments from third parties on OED reports can be publicly disclosed.

7. **Staffing.** Staff vacancies constrained the delivery of the 2006 OED work program. As reported at the Budget Review Committee Meeting on 8 November 2006, OED was not able to fully deliver the volume of outputs planned under the original 2006 Work Program approved by the Board in November 2005, due to the high vacancy rate in OED's international staff positions (an average of 27%, or 6 out of 22 positions). This situation also led to increased responsibilities for some OED national officers, who were assigned to produce specific outputs in 2006. Despite the constraint, OED was able to deliver more reports in 2006 than in 2005. OED's human resources have improved in 2007 as vacancies are being filled.

8. In 2005, OED issued guidelines covering conflict of interest in independent evaluations. Following these guidelines, the Director General recused himself from parts or the whole of the

³ ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila; and ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila.

⁴ A nonsovereign operation is an ADB-financed transaction in the form of a guarantee, loan, or equity investment with a subsovereign, state-owned enterprise, other public-private entity, or private sector entity as obligor or investee, normally without direct sovereign indemnity.

⁵ ADB. 2007. *Guidelines for Preparing Performance Evaluation Reports on Nonsovereign Operations*. Manila. Available: <http://www.adb.org/Documents/Guidelines/Evaluation/PPER-prepguide-NonsovereignOperations.pdf>.

review and approval process of two special evaluation studies, five project performance evaluations, and one TA performance evaluation in 2006.

9. Establishment of a Knowledge Management Unit in OED. The Knowledge Management Unit started as a collegial team established on a voluntary and part-time basis to support OED functions and to promote awareness and improvement, particularly in the areas related to learning, client orientation among OED staff, and dissemination approaches and channels for OED's evaluation products and services to internal and external audience/clients. The Unit endeavors to achieve this by interfacing with other departments, DMCs, and the international evaluation community. The knowledge management initiatives are expected to act as catalysts for change and to provide OED management with useful information for making strategic choices to make OED more relevant and effective. The Unit is focusing on a number of immediate objectives, with flexibility to meet emergent and evolving requirements to support OED operations and ADB's knowledge management functions.

10. The Knowledge Management Unit in OED was formally established in 2006. It is staffed by a full-time professional and an analyst. A help desk was set up to serve the needs of clients. The Unit aims to (i) recognize opportunities for evaluation findings to be used in decision-making processes inside and outside ADB; and (ii) work with OED management to identify measures to ensure usability and dissemination of evaluation findings, lessons, and recommendations at the start-up stage of projects. It also plans to systematize OED's business processes utilizing information technology for knowledge sharing.

11. The Unit's inception stepped up the process of conceptualizing, developing, and providing summaries of evaluation findings to potential users in a digestible form at the time such information is needed to support the decision-making process. It identifies and recommends relevant publications and references for acquisition, and develops indicators and methods for monitoring the results of its own activities—both utilization of information and influence of OED studies. It plans to find innovative ways to maintain and update OED publications and the web-based database of lessons from evaluation findings.

12. Dissemination of OED Reports and Information. Led by OED's Knowledge Management Unit, dissemination of OED reports and information, both internally and externally, was given increased emphasis in 2006. Continuous efforts to share information internally are being made through enhancements in OED's website (www.adb.org/evaluation) and internal knowledge management systems, along with the department-wide circulation of a newsletter featuring OED activities/reports and other significant evaluation topics. Initiatives to increase OED's reach to its external audience were also developed and are being continuously enhanced. Evaluation products are now (i) repackaged in more digestible forms (i.e., online abstracts, featured one-pagers, and options to download part or the full document), (ii) made easier to find by search engines (i.e., by creating identifiable tags [metadata] in all OED web pages), and (iii) featured regularly through the Department of External Relations' media channel. The Evaluation Information System,⁶ an online application developed by OED, was launched in early 2007. It offers country, sector, and project/program information on lessons, recommendations, follow-up actions, and Management responses to evaluation reports from 1995 to 2007.

13. Evaluation CD. OED's mandate includes evaluation CD in client countries. In reviewing the 2006–2008 Work Program, DEC suggested that OED focus initially on knowledge

⁶ Available: <http://evis.adb.org/>.

management activities rather than devoting significant resources to building evaluation capacity in DMCs. Developing a demand for evaluation findings among decision makers in DMCs and a capacity for clients to undertake their own evaluation work should help to achieve greater development effectiveness and improve results from public expenditure in general. From 1991 to 2007, OED carried out 15 evaluation CD TA activities in seven countries amounting to \$4.35 million. Building on work initiated in 2006, OED entered into a memorandum of understanding in 2007 to support the recently launched Shanghai International Program for Development Evaluation Training, a regional version of the successful International Program for Development Evaluation Training. OED has formulated a regional TA for approval in 2007 in support of evaluation CD, a task that was added to OED's original work program.

14. **OED Staff Training in Evaluation.** In addition to the annual participation of one or two staff in the International Program for Development Evaluation Training, in-house training programs are arranged for OED staff. In February 2006, a 3-day evaluation workshop was conducted for all OED staff covering Role of Evaluation and Applications for OED; Impact Evaluation Design; Tools and Techniques of Evaluation; and Real World Evaluation—Conducting Evaluation with Budget, Time, Data and Political Constraints.

15. **Evaluation Reports in 2006.** Nineteen project/program performance evaluation reports, two TA cluster performance evaluation reports, and seven SESs were completed in 2006 (Appendix 1, Table A1.1). The two CAPEs for Uzbekistan and Lao People's Democratic Republic (Lao PDR) and the two OED annual evaluation reports⁷ were also completed. The road SAPE in Pakistan was also published. Other reports generated were the *Technical Assistance Completion Report for Regional Technical Assistance 5979: Impact and Special Evaluation Studies of ADB Operations in Developing Member Countries* and the *Guidelines for the Preparation of Performance Evaluation Reports of Public Sector Operations*. Reports carried over for 2007 can be seen in the rolling work program found in Table A1.2.

16. **Project/Program Evaluation Projects.** Originally, OED evaluated all completed projects and programs. It then moved to a stratified random sample, with the size of the sample decreasing over time. Simultaneously, OED helped harmonize evaluation methodologies used in project/program completion reports (PCRs) with those used for postevaluation, and reviewed about half of all project completion reports in-depth to improve their quality. From 2007, OED has significantly reduced the number of individual project evaluations and has moved to a purposeful rather than a random sample. Accountability will now be ensured and results tracked over time through OED's validation of 100% of PCRs. This move is also consistent with the trend to bring evaluation forward in the project cycle to facilitate earlier adoption of lessons. Because a purposeful rather than random sample is now used, OED's evaluations are no longer representative of the performance of completed ADB projects/programs.

17. The 19 project/program performance evaluation reports (PPERs) completed in 2006 covered 15 projects and 4 programs (or 23 individual loans/equity) in 11 DMCs. Of the 15 projects, 3 were nonsovereign operations consisting of two loans with equity and one purely equity investment. The 12 other projects consisted of 14 sovereign loans. The evaluation results show that, of the 19 operations evaluated in 2006, 11% were rated *highly successful*, 63% *successful*, 21% *partly successful*, and 5% *unsuccessful*.

⁷ ADB. 2006. *Annual Report on Loan and TA Portfolio Performance for the Period Ending 31 December 2005*. Manila; and ADB. 2006. *2006 ADB Annual Evaluation Review*. Manila.

18. All four infrastructure projects were from the People's Republic of China (PRC) and consisted of three for roads and one for a port. Two road projects were rated *highly successful*, while the two remaining infrastructure projects were rated *successful*. Operations were less successful in the agriculture, social, and finance sectors. One agricultural development program was rated *unsuccessful*, and the four operations from the social and finance sectors were rated *partly successful*.

19. In term of country groupings, 3 (16%) projects/programs from country group A, 3 (16%) from country group B1, 12 (63%) from country group B2, and 1 (5%) from country group C were included in the project/program evaluations.

20. **Technical Assistance Evaluation.** In 2006, OED evaluated and rated 21 TA operations, 12 of which were through technical assistance performance evaluation reports (TPERs) and 9 as components of PPERs. While other TA activities were included in SESs, those were not rated but were discussed as part of the evaluation studies. Of those that were rated, the evaluation results show 3 (14%) were *highly successful*, 11 (53%) *successful*, and 7 (33%) *partly successful*, with none rated *unsuccessful*. TA activities are not selected for evaluation at random but are chosen as part of clusters covered in a TPER or are associated with a project that is being evaluated. Thus, these evaluation ratings for the 21 TAs are not representative of the performance of the total TA portfolio.

21. **Harmonizing Evaluation Approaches across Multilateral Financial Institutions.** ECG, established in 1996, includes the International Monetary Fund and the multilateral development banks. It is composed of the heads of the evaluation departments of the members. To promote harmonization, ECG develops best practice standards for various types of evaluations and undertakes benchmarking studies to assess the degree to which members apply the standards. Since 2006, OED has been leading the work to develop good practice standards for the evaluation of country programs. OED also participated in ongoing efforts to develop revised best practice standards for evaluating sovereign projects, nonsovereign projects, and TA. It has also undertaken a complete revamp of the ECG website (www.ecg.net). The most recent meeting of the Group agreed to establish a permanent part-time secretariat in Manila. It also agreed to launch a peer review process to assess the performance of members' independent evaluation departments. This work was led by the heads of evaluation at ADB, the European Bank for Reconstruction and Development and the Inter-American Development Bank. OED continues to participate in the Development Evaluation Network of the Organization for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC). Through this international networking, opportunities are being identified for the conduct of joint evaluations, and approaches to evaluation are shared.

22. **Improving Business Process.** In response to DEC's *2005 Annual Report* identifying ways in which ADB's institutional learning and change management processes could be improved, OED made conscious efforts to act on specific DEC recommendations. For instance, while intended end-users of studies/reports were traditionally consulted near the completion of an evaluation, OED now reviews the scope and methodology with the main stakeholders, particularly the ADB operations department and the concerned government, *before* starting the evaluation. To stimulate input into OED evaluations, approach papers are now being posted on the OED website once they are approved. OED also introduced an additional stage for discussing draft evaluation recommendations with ADB operational management and, in the case of CAPEs, with DMC officials before the evaluations are finalized. The objective is to ensure that those responsible for implementing the recommendations understand them, confirm those that are acceptable and feasible, and build early commitment.

23. Specific DEC recommendations affecting ADB business processes, generated from its review of selected OED major studies, include (i) improving country partnership strategy papers, (ii) documenting governments' views in CAPEs, (iii) addressing staff resource requirements for implementation of new or revised policies and strategies, (iv) redefining the role of agriculture and rural development in poverty reduction, and (v) strengthening the safeguard policies. Their status, along with the status of the recommendations in DEC's *2006 Annual Report*, is described in the companion volume to this report, *Acting on Recommendations and Learning from Lessons: Increasing Value Added from Operations Evaluation*.

D. Achieving Effectiveness in Sovereign Projects and Programs

24. ADB's cumulative lending by the end of 2006 amounted to \$123.2 billion, of which \$117.3 billion (95%) was sovereign lending. Of the total sovereign lending, 79% was for projects and the remaining 21% was for program loans (including policy components of sector development programs). The performance of sovereign lending operations is assessed through PCRs prepared by operations departments and through PPERs prepared by OED. PCRs are prepared for all sovereign projects/programs 1–2 years after their completion,⁸ but have contained a rating only since 1995. PPERs are typically prepared 3 years after project/program completion. Until 1984, these reports were prepared for all projects and programs, with successive reductions in coverage, thereafter. By 2006, 25% of self-evaluated projects/programs were covered. A three-category rating system—*generally successful*, *partly successful*, and *unsuccessful*—was used to assess performance prior to 2000. To more closely harmonize ADB's evaluation methodology with those of other multilateral development banks, a four-category system—*highly successful*, *successful*, *partly successful*, and *unsuccessful*—has been used since 2000. The project rating is derived on the basis of four criteria: relevance, effectiveness, efficiency, and sustainability.⁹

25. The purpose of this section is to (i) present the trends in achieving success in sovereign operations (projects and programs), and (ii) identify lessons and strategic issues affecting the success or failure of project and program lending.

26. In this chapter, projects and programs rated *successful* are defined as the sum of projects and programs rated *highly successful*, *successful*, and *generally successful*.¹⁰ Projects/programs rated *unsuccessful* were clearly failures, while projects/programs rated *partly successful*, in spite of achieving some development results, fell short of their objectives. The evaluations of partly successful projects/programs identified some problems related to effectiveness, efficiency, and/or sustainability; and the projects/programs were therefore not included among the group of successful projects.

⁸ For nonsovereign operations, extended annual review reports are prepared by the Private Sector Operations Department or relevant regional department once they have reached early operating maturity. In view of current capacity constraints, the following coverage targets for extended annual review report completions were set: 25% of the mature nonsovereign operations project population in 2005; 40% in 2006; 60% in 2007; and 100% in 2008. Guidelines for self- and independent evaluations of nonsovereign operations were issued in 2007 (footnote 5).

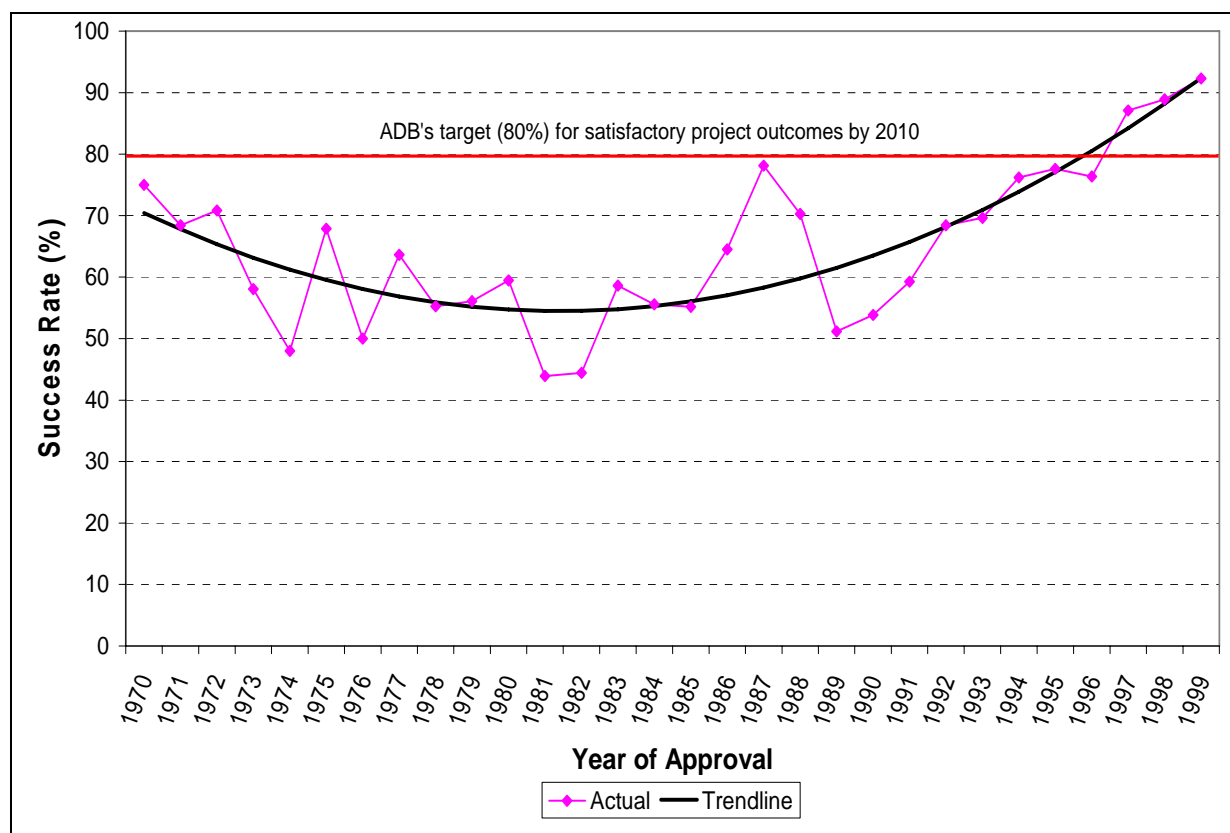
⁹ ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila. Available: <http://www.adb.org/Documents/Guidelines/Evaluation/PPER-PSO/default.asp>.

¹⁰ PCRs and PPERs are aggregated using the PPER ratings when both PCR and PPER report ratings are available.

1. Trends in Achieving Success in Sovereign Projects

27. Of the 1,037 evaluated projects approved over the last three decades, 65% were rated *successful*, 27% *partly successful*, and 8% *unsuccessful*. Factors influencing project success continued to be sector characteristics, country characteristics (e.g., capacity of executing agencies [EAs], economic context, and quality of governance), and ADB inputs (e.g., contributions of the mission leader and other mission members, project administration, and the quality of supervision and guidance from senior staff and Management). The likelihood of project success has improved for projects approved in the 1990s, as is illustrated in Figure 1.

Figure 1: Trends in Project Rating, by Year of Approval
(combined PPER and PCR results)



ADB = Asian Development Bank, PCR = project completion report, PPER = project performance evaluation report.
Source: Operations Evaluation Department.

28. This pattern of evaluation ratings suggests that the design and/or implementation of ADB-funded projects have progressively improved in the last two decades, a possible indication of continued learning, the effectiveness of initiatives aimed at strengthening project quality, and stronger institutions and better policies in DMCs.¹¹ However, there are several caveats about the improving trend toward better success rates: (i) rated projects approved from 1997 to 1999 comprised 46% of total processed projects during the period; the remaining 54% are still under implementation; (ii) there is a possible bias towards more positive interpretation of success in

¹¹ Measures to improve project performance included organizational and strategic changes, improvement in quality at entry, and improvement in portfolio management and project administration. The details were discussed in the *2005 Annual Evaluation Review* (available: <http://www.adb.org/Documents/PERs/pre-oth-2005-10.pdf>).

later years, since the more recent ratings rely on PCRs; and (iii) projects approved in the 1990s that have experienced long delays in implementation and have not been completed are likely to have lower than average success ratings.

29. ADB has set the target at 80% for satisfactory outcomes of projects (and programs as well) to be achieved by 2010. It continues to pay more attention to improving quality at entry. Under its Enhanced Poverty Reduction Strategy,¹² ADB is committed to assess the quality at entry of its projects and country strategies every 2 years. The first assessment was carried out in 2006 by a panel of individual staff members nominated by the Vice-President for Knowledge Management. Regional departments have been asked to report on actions being taken to improve quality at entry, and, based on these and the report itself, the Office of the Managing Director General intends to share the findings with DEC. Management is also considering how the process of monitoring quality at entry should be institutionalized.

30. Analysis of evaluated projects shows that, over the long term, sector and country correlate with project quality—projects are more likely to be successful in certain sectors and certain countries. Sectorwise, large infrastructure projects tended to do better, with transport and communications and energy projects showing particularly high success rates (84% and 82%, respectively, as of the end of 2006). In other sectors, performance deteriorated for projects approved in the 1980s, and then improved significantly in the 1990s. These are education, from 52% to 82%; water supply, sanitation, and waste management, from 39% to 73%; and health, nutrition, and social protection, from 38% to 60%. The agriculture and natural resources sector remained the poorest performing sector, though slight improvements in the likelihood of success were noted over the last three decades (Appendix 2, Table A2.1). Details on project performance by sector are provided in Table A2.2.

31. Performance by country varied significantly (Table A2.3). Results in most countries were considerably better for projects approved in the 1990s than for those approved in the 1980s. Projects in countries with strong institutional capacity tended to perform well. Other country factors, such as economic performance, development priorities, and quality of governance, contribute to the likelihood of project success.

32. This AER is not intended to present a full discussion of all of the factors that affect project success by sector and by country, as these were analyzed comprehensively in the *2005 Annual Evaluation Review* (footnote 11) and the *2006 Annual Evaluation Review*.¹³ To supplement the analysis of the factors that may influence project success, the 2006 AER further carried out a multivariate logit analysis to help understand the key factors that affect project success and examined the lessons from successful projects in five sectors (e.g., transport, energy, education, water supply, and irrigation/drainage).

2. Trends in Achieving Success in Program Lending

33. While project lending has constituted the majority of ADB's assistance, program loans are also important and were used extensively in response to the 1997 Asian financial crisis. Program loans are disbursed relatively quickly to cover the adjustment costs of policy reforms and have been made to 31 DMCs, although most program lending has been concentrated in a

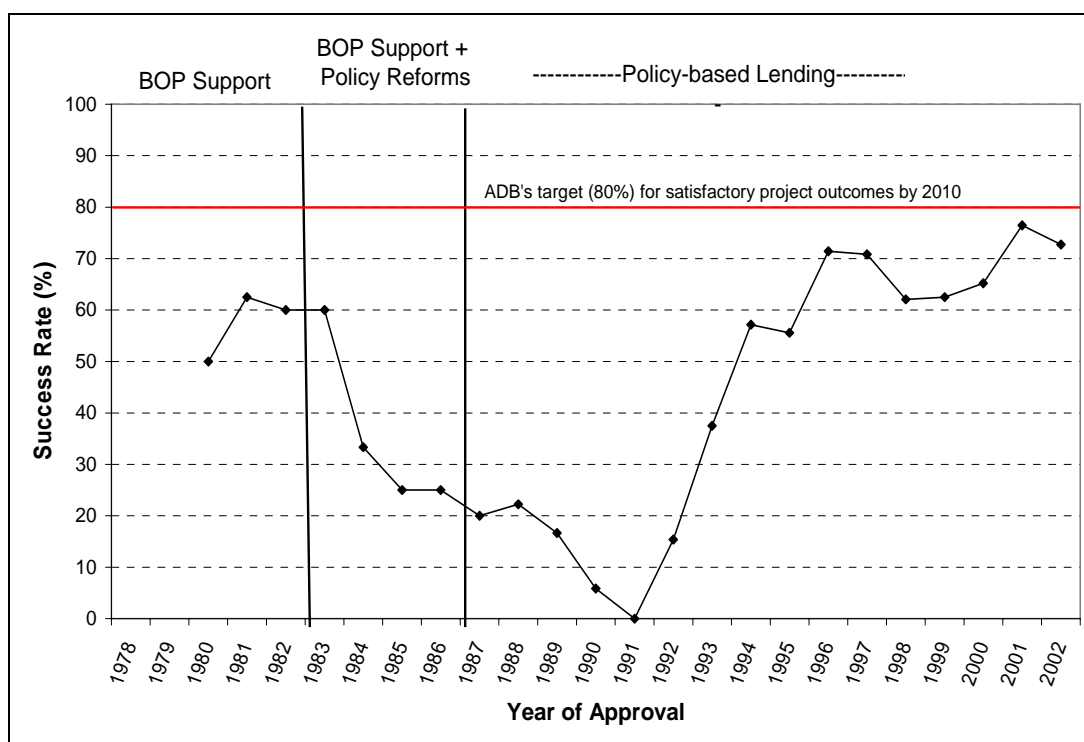
¹² ADB. 2004. *Enhanced Poverty Reduction Strategy*. Manila. Available: http://www.adb.org/Documents/Policies/Poverty_Reduction/2004/default.asp.

¹³ ADB. 2006. *2006 Annual Evaluation Review*. Manila. Available: <http://www.adb.org/Documents/PERs/2006-AER.pdf>.

few countries¹⁴. From 1978 to 2006, 185 programs¹⁵ (covering 207 loans) were approved for a combined total of \$23.9 billion (ordinary capital resources and Asian Development Fund).

34. As a matter of policy, program lending is to be limited to 20% of sovereign lending, calculated on a 3-year moving average. Since 1998, this figure has been exceeded each year. Of the 101 evaluated programs, 51% were rated *successful*, 46% *partly successful*, and 3% *unsuccessful*. The success rate for program loans was unacceptably low for those approved through 1991, particularly for those approved from 1989 to 1991, when none of the 15 programs was rated successful.¹⁶ However, the probability of success improved for programs approved after 1991, reflecting the positive effect of initiatives to improve quality, greater experience with the use of a policy-based lending modality, and the revision of ADB's program lending policies in 1996. The trend in program rating by year of approval is shown in Figure 2.

Figure 2: Trend in Program Ratings
(success rate based on 3-year moving averages, %)



ADB = Asian Development Bank, BOP = balance of payments.

Source: Operations Evaluation Department.

35. Program performance by sector shows a different pattern compared with project lending. The probability of success was higher for programs dealing with financial reforms and capital market development than for programs introducing reforms in the energy and transport sectors (Table A2.4). About 75% of programs in the finance sector were rated successful. No program loans in the energy and transport sectors were rated successful as of the end of 2006, although this modality was not commonly used in those sectors. Agriculture program loans performed

¹⁴ India, Indonesia, Republic of Korea, Pakistan, and Philippines.

¹⁵ Excludes one cancelled program.

¹⁶ Ten of these were in the agriculture sector, two in finance (both first in the country), one in transport (first in the sector), one in energy (first in the sector), and one in the industry sector.

poorly (worse than agriculture projects), with a low success rate of 28%. Overly ambitious design—pushing for wide-ranging reform measures beyond the government's internal capacity (i.e., institutional and human resources)—and the questionable sustainability of reforms introduced were the main contributory factors to the disappointing performance of agriculture program loans. Since agriculture programs accounted for 32% of the total evaluated programs, the aggregate success rate was brought down to 51%.

3. Lessons Drawn from Evaluated Project/Program Lending

36. Lessons gathered from the Evaluation Information System indicate that the success and/or failure of both project and program lending often stem from project/program design; ownership and commitment; participation and consultation; institutional capacity of the executing and implementing agencies to implement; and sufficiency of resources such as staff, time, and financial capital to implement and review the project/program.

37. On project lending, the lessons identified from the evaluation of successful projects highlight a number of factors affecting the achievement of desired results. Within ADB's ability to influence, successful projects involved (i) thorough project preparation—characteristics of sound project design include the introduction or strengthening of successful capacity-building interventions (together with training in ADB procedures and systems), formulation of the project based on the needs or demands of beneficiaries, flexibility in the timing of implementation for ongoing and evolving development programs and projects, and provision for a financial framework to sustain the project; (ii) adoption of a broad sector approach, which provides flexibility during implementation and helps avoid many ad hoc adjustments and confusion that may arise from a rigid design; (iii) close coordination among funding agencies assisting the same institution and/or sector; and (iv) the positive role of resident missions in project administration (because of their close proximity to EAs and, in some cases, language skills). Areas for improvement to reach optimum results point to design flaws during project preparation (for the most part) and weaknesses in implementation. In addition, project supervision sometimes lacked continuity due to frequent changes in ADB staff and inadequate involvement of experienced and specialized ADB staff for project administration.

38. Factors external to ADB that improve the chances of achieving successful project outcomes include strong ownership by the government coupled with satisfactory institutional capacity of the EA. Similarly, a strong sense of ownership by the beneficiaries, fostered through extensive participation, enhances the prospects for achieving the desired project results. Non-availability or shortage of counterpart funds, institutional weaknesses, and a nonconductive policy environment pose threats to successful outcomes.

39. In the case of program lending, a summary of key findings from a recent OED evaluation¹⁷ indicates that factors within ADB's influence that contribute to desired results include (i) consistency of reform outcomes with the government's reform agenda and priorities; (ii) sufficiency of analysis and dialogue; (iii) well-targeted reforms and policy change consensus among decision makers and stakeholders; (iv) coherence of program design and policy matrix; (v) execution of focused, manageable conditions prior to program start-up, (vi) suitability of implementing agency capacity, and (vii) the likelihood that direct and indirect reform costs were identified and met by the program or by counterpart funding.

¹⁷ ADB. 2007. *Policy-Based Lending in ADB: Recent Trends and Good Practices from Evaluation*. Manila.

40. Factors within ADB's influence that detract from the achievement of results include (i) insufficient consideration of macroeconomic and wider sector policies; (ii) inconsistency of reform outcomes with government priorities; (iii) lack of counterfactual analysis, and poorly understood outcome and policy alternatives; (iv) complex and ambitious reforms; (v) poor decision-maker and stakeholder support and awareness; (vi) overly complex design and excessive tranche release conditions specified in the policy matrix; (vii) backloading of conditions to second and subsequent tranches; (viii) weak implementing agency capacity; and (ix) unidentified or unmet key direct and indirect costs.

41. Factors outside ADB's influence but presenting opportunities for favorable reform results include (i) stable global and regional markets; (ii) stable country economic, social, and political contexts; and (iii) complementary macroeconomic and institutional reforms beyond the program boundary. External factors that are a threat or risk to a reform program are (i) negative changes in the broader market and policy environment; (ii) unrealized complementary macroeconomic and institutional reforms; and (iii) changes in governments, policy swings, competing and conflicting interests that stall reforms, and wavering commitment.

42. A strengths, weaknesses, opportunities, and threats summary of key internal and external factors affecting ADB's project and program lending success is provided in Appendix 3...

II. THE CHALLENGE OF CAPACITY DEVELOPMENT

A. How to Get Institutions Right?

43. Institutions are an integral part of the production and provision of goods and services. Where institutional capacity is weak (i.e., where a government is unable to effectively carry out its own policies, the private sector is underdeveloped, or civil society organizations have limited capacity to deliver development results), the consequences for society can be costly. Since there is a tremendous array of institutions that influence the economy, there is an equally large number of choices that have to be made in developing capacity. Priorities have to be set, and careful choices have to be made (e.g., in terms of the level, quality, and duration) in the design of CD interventions. The returns to CD investments are a function of the contribution of that CD to economic growth and development. For example, increased labor productivity through CD in human capital has a strong influence on the rate of technological change and total factor productivity, hence on economic growth. In addition to this direct linkage through the quality of the labor force, institutional capacity influences economic development in a number of ways, by (i) improving managerial (or Z) efficiency, which is a measure of the quality with which decisions on resource allocation are made; (ii) reducing transaction costs, which stimulates economic activities by boosting confidence and enhancing the signaling quality that markets and public policies have; (iii) improving policy choices, or the influences that institutional capacity exerts on the ability of policy makers to exercise informed decision making; and (iv) contributing to good governance, which also tends to boost investor confidence.

44. In evaluating ADB's CD interventions, one of the first questions that should be asked is whether or not the expected returns/outcomes from these investments were substantial enough to merit the CD investments. If not, then the resources that were expended could have been used more efficiently elsewhere. To answer this question, one must know the nature of the linkages between CD interventions and economic development, which are highly context specific (e.g., while a particular capacity constraint may be a binding constraint to economic development in some countries, it might not be the case in others). Thus, to get institutions right

for a particular country, it is important that relevant binding constraints to economic development at the contextual level be identified as CD constraints while setting CD priorities. Unless there is a clear understanding of what sorts of CD are most likely to have the highest payoffs, given context-dependence, there is a risk that assistance efforts will create capacities that will not be used, will disappear after the project, or will have no visible economic effect. While the linkages between CD and economic development are generally found to be strong, the degree to which a CD intervention is indeed addressing a critical bottleneck to improved development results must be assessed through a diagnostic at the contextual level.

B. What Is Capacity Development and Why Does It Matter?

45. CD is a concept that is subject to differences in definition and interpretation. Capacity is defined by the European Centre for Development Policy Management as “*the emergent combination of attributes, assets, capabilities, and relationships that enable a human system to perform, survive, and self-renew*,”¹⁸ and by OECD-DAC as “*the ability of people, organizations, and society as a whole to manage their affairs successfully*.”¹⁹ CD is defined as “*the process whereby people, organizations, and society as a whole unleash, strengthen, create, adapt, and maintain capacity over time*.”²⁰ OECD-DAC also defines promotion of CD as “*what outside partners—domestic or foreign—can do to support, facilitate or catalyze CD and related change processes*.”

46. The broad definition of CD adopted by ADB is “*securing a country’s ability to manage its own affairs*.”²¹ ADB has also adopted a harmonized definition of CD as “*the process whereby people, organizations, and society as a whole unleash, strengthen, and maintain capacity over time*.” In its broadest sense, CD symbolizes “*a shift toward measures that enable national empowerment and a more balanced relationship among funding agencies, national governments, and other organizations*.”

47. The 2005 Paris Declaration on Aid Effectiveness called for CD to be an explicit objective of national development and poverty reduction strategies, and to be demand driven to ensure country ownership and leadership.²² Each partner country was required to commit itself to prioritize CD investments under the country’s results-based CD framework,²³ with external funding agencies playing a harmonized supportive/catalytic role in helping the country prepare, implement, and monitor the CD framework at the country, sector, and local government levels.

¹⁸ European Centre for Development Policy Management. 2006. *Initial Mapping of Approaches towards Monitoring and Evaluation of Capacity and Capacity Development*. Maastricht.

¹⁹ OECD-DAC. Network on Governance. 2006. *The Challenge of Capacity Development: Working Towards Good Practice*. Paris.

²⁰ According to OECD-DAC (footnote 19), the phrase “CD” is used in preference to “capacity building” because the latter implies a process starting with a plain surface and involving the step-by-step erection of a new structure, based on a preconceived design. Experience suggests that capacity is not successfully enhanced in this way.

²¹ Buentjen, Claudia. 2005. *Strengthening Capacities for Increased Aid Effectiveness. The Governance Brief. Issue 12-2005*. Manila.

²² Of the 12 performance indicators at the country level identified by the Paris Declaration, two were aimed at measuring progress on CD commitment: (i) strengthening capacity by coordinated support (measured by percentage of CD support provided by funding agencies through coordinated programs consistent with partner countries’ national development strategies), and (ii) strengthening capacity by avoiding parallel structures (measured by number of parallel project implementation units per country).

²³ The country’s CD framework should (i) become an important component of the country’s development strategy; (ii) clarify the supportive role of various funding agencies; (iii) increase awareness that improved country capacities are themselves essential development results; (iv) guide future CD dialogue, and the implementation and monitoring system for CD interventions; and (v) help analyze possible trade-offs between short-term performance and long-term CD objectives.

CD is recognized as one of the most critical issues in achieving sustainable development and aid effectiveness, without which development efforts in many poor countries are unlikely to succeed. Recently, about a quarter of total net overseas development assistance (more than \$15 billion a year) has gone into technical cooperation, most of which aimed at CD for ministries, local governments, and regulatory agencies.²⁴ Despite such large CD inputs, improvements in public sector management and institutions have lagged behind all other indicators of the Millennium Development Goals.²⁵ Achievement of sustainable CD outcomes (e.g., improved overall organizational performance for effective delivery of public services) thus remains one of the most challenging tasks. Since organizations are key intermediaries for aid implementation, strengthening their capacity would be needed in its own right and as a prerequisite for achieving aid effectiveness. As simply put by OECD-DAC, capacity is a broad concept that can be viewed as both a means and as an end in itself.

C. What Has ADB Done to Recognize the Importance of Capacity Development in Its Reform Agenda?

48. ADB formally recognized the importance of CD in August 2004, when a comprehensive Reform Agenda was adopted. CD was included as one of the initiatives in ADB's Reform Agenda and considered as an important component of ADB's approach to Managing for Development Results (MfDR). CD was also elevated to a new thematic priority for ADB lending and TA operations,²⁶ in line with the suggestion in ADB's Enhanced Poverty Reduction Strategy (2004).²⁷ Box 1 provides details on CD activities undertaken as part of the Reform Agenda. Appendix 4 provides information on how ADB has been assisting in CD in partner countries.

Box 1: ADB's CD Initiatives Undertaken by the Capacity Development and Governance Division (RSCG), Regional and Sustainable Development Department

ADB adopted a comprehensive Reform Agenda on 25 August 2004 to improve its effectiveness in delivering development outcomes/impacts, including reducing poverty in DMCs. CD is one of the 19 initiatives under the Reform Agenda related to internal changes and realignment. The Regional and Sustainable Development Department, through RSCG, was designated as the lead for CD initiatives. As a first move, an interdepartmental CD Working Group was established. The CD Working Group then introduced a classification system for CD in December 2004 and prepared a report^a aimed at enhancing the client orientation, effectiveness, efficiency, and sustainability of ADB's CD interventions. The report was discussed in an informal Board seminar in July 2006 and was adopted by ADB in January 2007. The action plan aims at two key outcomes: (i) institutionalizing a CD focus in country programs and operations, and (ii) establishing internal support systems for CD.

Progress on the implementation of the action plan has been excellent so far. RSCG is (i) supporting country teams (e.g., Afghanistan, India, Maldives, Pakistan, the Pacific region, and Sri Lanka) through workshops, intensive dialogues with governments, and studies on CD issues; (ii) supporting project teams in implementing CD projects;^b and (iii) spearheading knowledge management in CD with emphasis on strengthening accountability and demand for service delivery. As for knowledge management achievement, RSCG has (i) held sessions on various CD topics, (ii) developed draft

²⁴ OECD-DAC. 2003. *Development Cooperation Report, Statistical Annex*. Paris.

²⁵ World Bank and International Monetary Fund. Development Committee. 2004. *Global Monitoring Report: Policies and Actions for Achieving the Millennium Development Goals and Related Outcomes*. Washington, DC.

²⁶ The objective of the CD operational theme is to improve the quality of ADB operations by (i) strengthening a strategic linkage with the Poverty Reduction Strategy, (ii) focusing more on CD in country programming, (iii) improving ADB incentive structures and modalities for CD, and (iv) providing coherence across other thematic and sector priorities.

²⁷ ADB. 2004. *Enhancing the Fight Against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

terms of references for organizational and institutional CD assessments, and (iii) reviewed existing tools for CD support that can be made available. Ongoing knowledge management activities include (i) implementing many regional TA operations emphasizing various aspects of CD, (ii) preparing a number of governance briefs that will highlight CD aspects, (iii) managing a consultant database on CD, and (iv) preparing a website on CD. RSCG is also constantly coordinating with other funding agencies and CD networks on CD issues and is planning to set up a subcommittee on CD as part of the Governance Committee. One training program for operations staff on “How to Integrate CD in Sector Operations” was conducted on 26–28 March 2007 at headquarters.

Further, the first CD thematic report^c was prepared by RSCG as part of the comprehensive biennial monitoring and evaluation system for thematic and sector priorities. Key findings of the report show that (i) there has been a sizable share of CD interventions in total operations and a well-targeted sector allocation to the priority sectors specified under ADB’s current Medium-Term Strategy,^d (ii) country teams are starting to pay attention to analyzing CD needs at the sector, thematic, and local levels; (iii) more efforts need to be made by project teams to strengthen ownership and leadership, and to facilitate effective change management processes; (iv) ADB has been actively involved in the recent global debate on CD and has generated substantive partnership funds for CD; (v) CD-related evaluation studies call for improved diagnostics, more long-term orientation, less capacity substitution, and improved policy dialogue and government ownership; and (vi) there is a need for continuous learning, which will require better access to good practice, a CD community of practitioners, and a CD website.

^a ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

^b Currently, support to project teams is based on demand from regional departments, but this will be done more systematically through the regional TA that RSCG is currently preparing.

^c ADB. 2007. *Capacity Development Thematic Report*. Manila.

^d ADB. 2006. *Medium-Term Strategy II (2006–2008)*. Manila.

D. What Are International Good Practices for Capacity Development Assistance Relevant to ADB Operations?

49. Among a number of recent papers on CD, two present guidance on good practices that are particularly relevant for ADB operations—the OECD-DAC paper (footnote 19) and a European Commission/EuropeAid paper.²⁸ The former lists the following favorable conditions for achieving success in CD interventions: (i) strong demand-side pressures for CD are exerted from clients; (ii) top management provides visible leadership for CD, promotes a clear sense of mission, encourages participation, establishes explicit expectations about performance, and rewards well-performing staff based on merit; (iii) change management is included in CD interventions in an integrated manner; (iv) a critical mass of staff members, including front-line staff, are involved in all aspects of CD interventions, from design to implementation; (v) organizational innovations are tried, tested, and adapted to local conditions; (vi) early progress that deepen commitment for changes are visible early in the CD process; and (vii) top management and change agents manage the CD change process strategically and proactively—internally and externally (communication, sequencing, timing, feedback loops, celebration of progress, and recognition of problems).

50. The OECD-DAC paper notes that the concepts of capacity and CD are so all-encompassing that practitioners have often found it difficult to make operational sense of them. It is thus important to begin by asking the question “Capacity for what?” and focus on the specific capacity needed to accomplish clearly defined goals. What is then needed is an active

²⁸ European Commission/EuropeAid. 2006. *Institutional Assessment and Capacity Development: Why, What, and How?* Brussels.

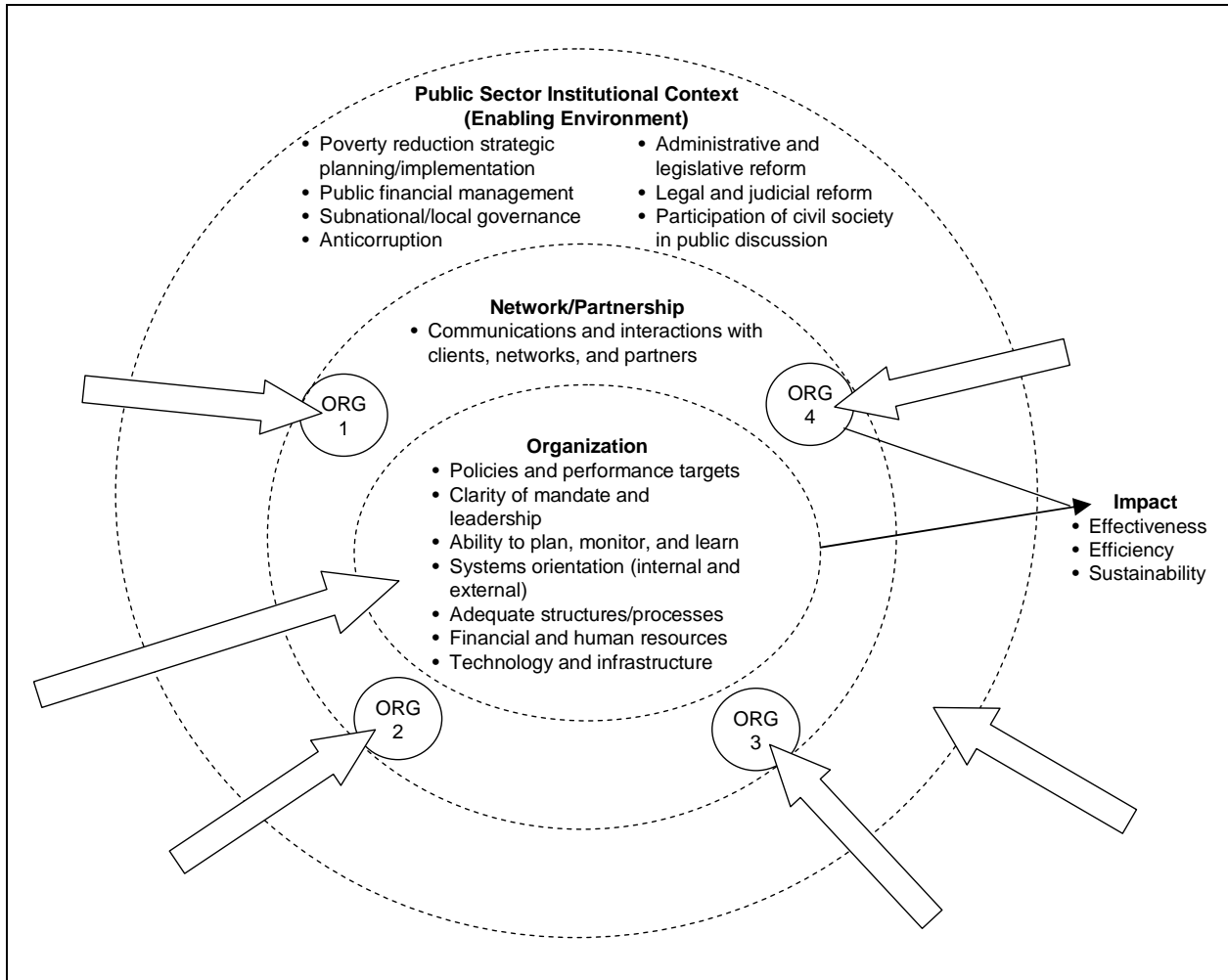
search for flexible CD approaches that best fit the particular circumstances of the country, sector, or organization. The paper also suggests that diagnosing and implementing CD should involve four factors at each CD level (individual, organizational, and the enabling environment): (i) understanding the international and country contexts, (ii) identifying and supporting sources of country-owned change, (iii) delivering support, and (iv) learning from experiences and sharing lessons.

51. The EuropeAid paper is more operationally oriented and makes the following recommendations for good practices: (i) agencies need to have a detailed knowledge of the specific context, organizations, stakes, and stakeholders involved and of the dynamics of changes; (ii) CD targets must be defined in terms of changes in organizational outputs rather than inputs (e.g., training and consultancy); (iii) CD targets must be feasible, implying a full analysis of existing capacity and the enabling environment; (iv) it must be possible to modify inputs fairly rapidly so that contractual and bureaucratic formalities do not impede flexibility; (v) it is crucial to develop a partner relationship, enabling negotiations to lead to “win-win” solutions; (vi) demand for CD must be strongly rooted in the local context—inside and around the relevant organizations—to bring about broad-based CD; and (vii) aid agencies must learn to play a catalytic role, rather than being designers or implementers of CD support. Their effectiveness does not depend only on themselves, but also on how they adapt their CD support to the context. The paper suggests that aid agencies are more likely to achieve CD outcomes by doing less but by doing it well.

E. What Methods Are Used for Evaluating Capacity Development Assistance?

52. As one of its many CD-support activities, RSCG has developed a framework for CD interventions, focusing on three levels—organizational, network of organizations, and the enabling environment (Figure 3). The entry points for CD assistance can take place at any of these three levels in any sector. While this ADB’s framework is similar to that of OECD-DAC’s, it differs slightly in that the three levels focused on in the latter are individual, organizational, and the enabling environment. Alongside these frameworks for CD interventions, there are many approaches for CD evaluation. One of the most widely-used approaches among aid agencies is the Danish International Development Agency’s results-oriented approach. This approach focuses on evaluating changes in CD outputs and outcomes, and identifying factors affecting CD achievement. This report has adopted a combination of the ADB’s and OECD-DAC’s frameworks as the structure within which to assess CD performance, including four CD levels—individual, organizational, network of organizations, and the enabling environment (Figure 4). Within this combined framework, this report has adopted the Danish International Development Agency’s results-oriented approach as the analytical tool to assess the effectiveness of CD interventions in achieving CD outputs and outcomes at the first three levels. The fourth level (the enabling environment or contextual level) is treated by this report as contextual/external/systemic factors affecting changes in CD outputs and outcomes in the first three levels.

Figure 3: ADB’s Framework for CD Interventions

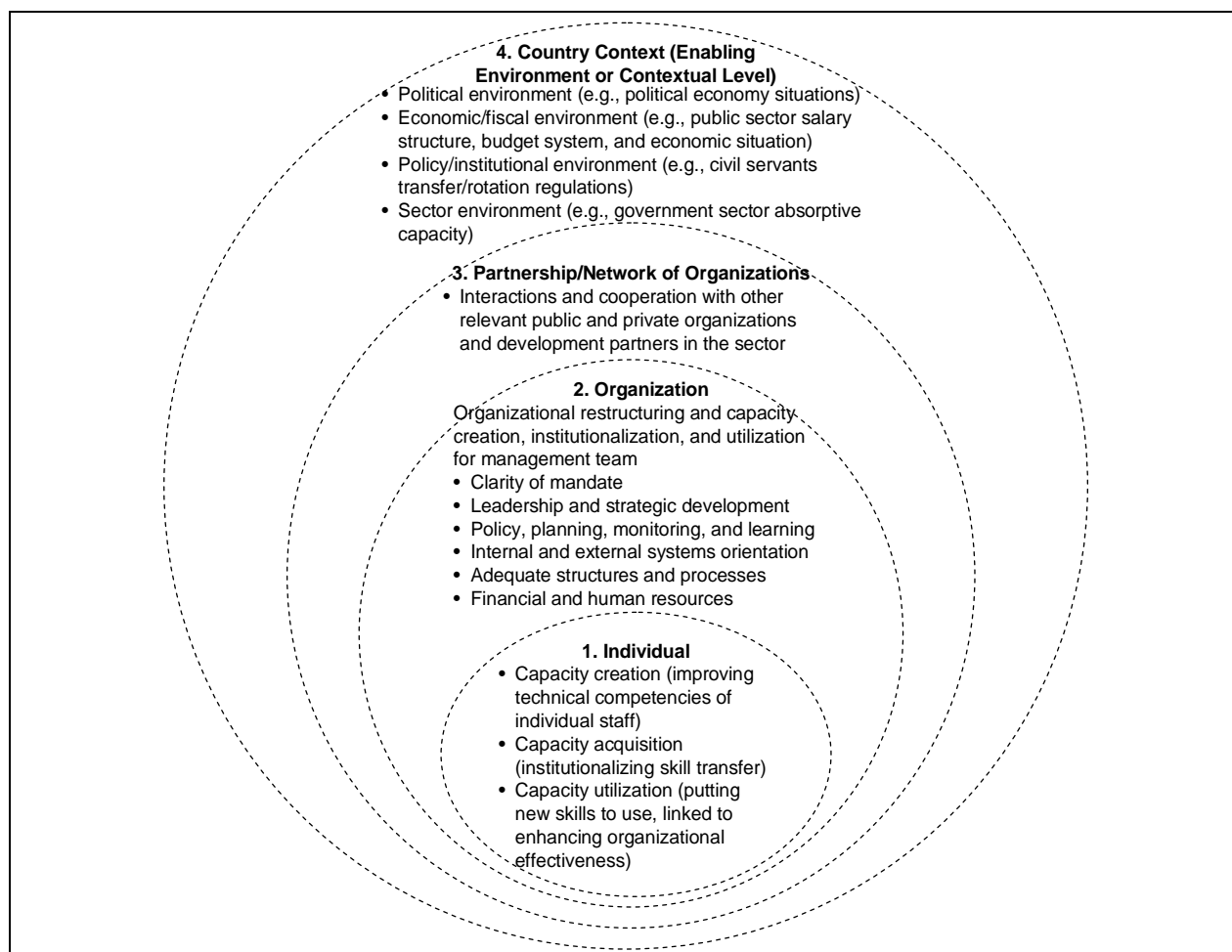


ADB = Asian Development Bank, CD = capacity development, ORG = organization.

⇨ = CD intervention point.

Source: ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

Figure 4: Framework for Evaluating CD Interventions by the AER



ADB = Asian Development Bank, AER = Annual Evaluation Review, CD = capacity development, OECD-DAC = Organization for Economic Co-operation and Development's Development Assistance Committee.

Sources: Adapted from (i) ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila; and (ii) OECD-DAC Network on Governance. 2006. *The Challenge of Capacity Development: Working Towards Good Practice*. Paris.

53. In the ongoing SES on CD²⁹ and in this report, CD performance (in terms of effectiveness in achieving CD outcomes and their sustainability) is assessed. "Success drivers" and "deterrence factors" affecting CD effectiveness and sustainability are also identified. These factors are then divided into four categories: (1) design/quality-at-entry factors within ADB's control, (2) design/quality-at-entry factors beyond ADB's control, (3) implementation factors within ADB's control, and (4) implementation factors beyond ADB's control. The factors under *category 1* are strategic factors reflecting *relevance and positioning* of CD interventions during the design stage, over which ADB has some control. The implementation factors in *category 3* reflect *efficiency* in resource utilization during implementation, over which ADB has some control. Since the remaining factors under *categories 2 and 4* are largely beyond ADB's control, they tend to be external/systemic factors at CD level 4 (the enabling environment or contextual level), which act as incentives or constraints/risks to CD interventions during the design and implementation stages.

²⁹ "Effectiveness of ADB's CD Interventions in Selected Key Sectors and Countries."

III. EFFECTIVENESS OF ADB'S CAPACITY DEVELOPMENT ASSISTANCE

54. This chapter assesses the effectiveness and sustainability of ADB's CD assistance based on the findings of OED's (i) ongoing SES on CD; and (ii) existing evaluation studies that cover aspects of ADB's CD-related assistance including CAPEs, SAPEs, IESs, PPERs, TPERs, and SESs. While OED's existing studies cover ADB's CD-related assistance in many sectors and countries, the ongoing SES covers four sectors in three countries in considerable depth. The four sectors/areas covered are education, road transport, governance, and public financial management (PFM). The three countries covered are Cambodia, Nepal, and the Philippines.³⁰

A. Findings from OED's Ongoing Evaluation Study on Capacity Development-Related Assistance

1. Cambodia

55. Overall, ADB's CD performance in Cambodia was effective (i.e., highly effective in education [see Box 2]; and effective in roads, governance, and PFM). The following *success drivers* were generally common across sectors: (i) strong government demand and ownership during design and implementation, (ii) long-term continuity of ADB involvement and appropriate mix of modalities, (iii) good supervision by ADB, (iv) good coordination and harmonization with other aid agencies, (v) generally good consultants, and (vi) flexibility during implementation to make changes that coped with unexpected developments in ways that solved problems. Generally common *deterrence factors* included (i) lack of system to effectively measure and monitor CD; (ii) the project management unit's (PMU) planning function and activities not being integrated into normal EA operations, resulting in capacity substitution rather than real skills transfer; and (iii) lack of baseline assessments, especially at the contextual level, resulting in lack of a strategy to address risks related to low public sector salaries. The findings indicate that, while CD outcomes at the individual level (e.g., high retention and utilization of the trained technical staff) are easier to achieve than those at higher CD levels (organizational and network levels), such achievement tended to be held back by the existing low public salary structure, which was the most important deterrence factor at the contextual level in Cambodia.

Box 2: What Made CD Performance Highly Successful in Cambodia's Education Sector? A Sector-wide Approach (SWAP)

Since the reestablishment of its operations in Cambodia in 1992, ADB has supported basic education with five CD-related advisory technical assistance (ADTA) grants and three loans. Overall performance was highly effective in achieving CD outcomes, especially at the organizational level, which contributed to achieving sector outcomes. *CD outcomes* at the *organizational level* included (i) institutionalized planning capacity of the Ministry of Education, Youth and Sports—the EA, as reflected in its ability to prepare sector strategic and action plans on its own; (ii) institutionalized aid coordination and project/program management functions within the EA's regular planning operations, as reflected in its ability to subsequently adopt the SWAP and be in the driver's seat; and (iii) decentralized education management, as reflected in the deconcentration of service delivery in more than 6,000 schools and 183 district offices. *Sustainability* prospects of the CD outcomes are likely due to increased government recurrent budget allocated to education from 13.6% to 19.2% (2000–2007). These CD outcomes contributed to achieving *sector outcomes*, albeit not entirely through ADB contributions alone: (i) increased primary net enrollment rate from 86% to 92%, with reduced gender gap from 7.4% to 2.4%

³⁰ The starting points of the periods covered by the ongoing SES for the three countries differ slightly, depending on the countries' situations and the timing of the corresponding CAPEs. The periods covered for Cambodia, Nepal, and the Philippines are 1992–2006, 1988–2006, and 1986–2006, respectively.

(1999–2005); and (ii) increased grade 6 survival rate to 45% and transition rate to 38% (1999–2005).

This is an example of a highly successful case, reflecting a combination of many *success drivers*, especially harmonized efforts among aid agencies led by the EA through the SWAP. The process started off by ADB (as a major funding agency in basic education) providing well-sequenced ADTA grants to build up organizational capacity and ownership of the EA in aid coordination, planning, and project/program management. This was followed by an appropriate mix of modalities, with well-coordinated lending and nonlending programs, consisting of a project loan and two policy-based loans (one of which was cofinanced) and attached ADTA grants. Through this long-term continuous process, the EA capacity was developed enough for it to take the lead role in aid coordination and the adoption of a SWAP to avoid duplication and piecemeal efforts by development partners.

2. Nepal

56. Overall, ADB's CD performance in Nepal was mixed (i.e., generally effective in education, effective only for more recent assistance in roads, evolving results in governance, and ineffective in PFM). Success was achieved in some sectors despite the country's challenging political economy situation at the contextual level. The following *success drivers* were generally common across sectors, except for PFM, which was ineffective: (i) ADB's appropriate mix of modalities, consisting of loans and attached ADTA grants; (ii) strong involvement and ownership of the EAs during design and implementation; and (iii) generally good consultants. Major deterrence factors for PFM were (i) limited consultations with the EA, leading to lack of government demand and involvement during TA design; and (ii) lack of government commitment and ownership during implementation. Generally common *deterrence factors* were (i) lack of baseline assessment at the contextual level, resulting in inability to address the problem of frequent staff transfers due to a civil service rule (which adversely affected the retention of the trained staff) and to the problem of political instability (which delayed legislation and implementation of some CD outcomes); (ii) lack of baseline assessment at the organizational level, resulting in inability to diagnose CD deficiencies of the EA; (iii) lack of evaluability to measure and monitor CD (e.g., target indicators, baseline data, and monitoring system); (iv) lack of strategic direction with realistic CD goals and objectives for the sector in some cases; (v) lack of long-term continuity, with scattered assistance in some cases; and (vi) lack of an appropriate mix of modalities in some cases.

3. Philippines

57. Overall, ADB's CD performance in the Philippines was mixed (i.e., less effective in the past assistance and evolving results in the ongoing assistance in basic education, mixed results in roads, less effective in local governance, and effective and evolving results in PFM). The following *success drivers* were generally common across sectors: (i) appropriate mix of modalities, (ii) long-term continuous support, (iii) good commitment and ownership by EAs during design and implementation, (iv) generally good consultants, (v) conducive environment through recent government decentralization efforts, and (vi) support mobilized from other aid agencies. Generally common *deterrence factors* included (i) lack of baseline assessment, particularly at the organizational and contextual levels, resulting in a lack of attention to the impact of political influences on road maintenance budgeting and selection of project priorities; (ii) underestimated funding requirements for some key activities; (iii) PMUs that were not integrated into normal EA operations; (iv) lack of focus and strategic direction (with realistic CD goals and objectives) at the sector level; (v) insufficient funding of postproject activities; (vi) insufficient emphasis on monitoring and evaluation during implementation; (vii) lack of evaluability to measure and monitor CD; (viii) lack of long-term continuity and appropriate mix of modalities; (ix) lack of devolution of national budget items to local government units; (x)

unfavorable economic conditions; (xi) delay in consultant mobilization; and (xii) inadequate TA review.

4. Summary of the Three Countries Studied

58. ADB-supported CD initiatives assessed in the ongoing OED SES have experienced mixed results. In many cases, CD outcomes have been achieved, and many of these are judged sustainable. In other cases, despite the best of intentions, CD efforts resulted in little impact and few sustainable outcomes. While it is not possible to precisely quantify the degree of success versus the degree of underachievement, the results achieved by many CD initiatives leave much to be desired in terms of effectiveness and sustainability. Some systematic factors suggest lessons to explain why some CD initiatives are successful. These factors are classified as *success drivers*. For example, one outstanding success driver of the education sector in Cambodia and Nepal was the EA readiness in terms of capacity, ownership, and leadership to adopt the SWAP, together with an appropriate mix of modalities, which included not only a series of ADTA grants, but also concomitant project and policy-based loans. The success was achieved in the education sector in Nepal despite the nonconducive political environment, which was a major CD deterrence factor in other sectors in that country. One outstanding *deterrence factor* for less successful CD assistance in some thematic areas (e.g., governance and PFM) was the reliance on only a single modality—mainly ADTA grants, oftentimes one-off interventions with no follow-up. Their CD impacts (if any) do not tend to last long, unlike a combination of modalities, particularly with investment projects, which allow for more resources, time, and efforts to create synergies of CD and sector assistance over a longer period of time.

59. Various types of contextual/external factors (e.g., political, economic/fiscal, policy/institutional, and sector) at the enabling environment level tend to be nonconducive and act as deterrence factors to CD performance. In a country with political uncertainties, a nonconductive political environment tend to dominate other kinds of contextual factors in deterring CD performance. Although other nonconductive economic and institutional deterrence factors (e.g., low public salary structure) may exist, these are not as important as broad political issues. In a country where political situations are more settled, economic and institutional problems tend to be the dominating deterrence factor at the contextual level. When political and economic situations are relatively more stable, factors at the contextual level are not found to be as important as factors at the organizational level in deterring CD performance (e.g., inadequate commitment within target agencies and/or coordination with other agencies at the network level within the sector). Detailed factors affecting CD performance in the three countries and four sectors are provided in Appendix 5.

B. Findings from OED's Existing Evaluation Studies on Capacity Development-Related Assistance

60. This section assesses the effectiveness of ADB's CD-related assistance based on other OED evaluation studies prepared from 2000 up to the present (Appendix 6). Since many of these studies were not designed primarily to assess CD performance, CD outputs and outcomes were not always clearly identified. Nonetheless, the findings give useful indications of CD outcomes.

1. Country Assistance Program Evaluations

61. From 2000 until the present, 12 CAPEs have been prepared—in Bangladesh, Bhutan, Cambodia, PRC, Indonesia, Lao People's Democratic Republic (PDR), Mongolia, Nepal,

Pakistan, Papua New Guinea, Philippines, and Sri Lanka. These CAPEs found that CD achievements have been mixed. For example, positive CD outcomes were found by the (i) Bangladesh CAPE in the power sector; (ii) Bhutan CAPE in power, finance, urban infrastructure, education, and health; (iii) Cambodia CAPE in education, health, and road; (iv) Mongolia CAPE in education and health; (v) Nepal CAPE in agriculture and natural resources and in rural water supply, especially at the field level; and (vi) Lao PDR CAPE in power, education, health, road, and urban development. The Lao PDR CAPE concluded that the assistance provided through many loans and associated ADTA grants made some contributions to enhance the sector capacity of government and quasi-government agencies, although overall capacity remained low. Nonetheless, the successful achievement of sector outcomes in many sectors reflected an improved capacity to a certain extent.

62. The CAPEs completed in 2007 covered the PRC, Pakistan, and Sri Lanka. Among the three countries, major CD outcomes were achieved in the PRC. The PRC CAPE mentioned that ADB's geographic and sector focus, combined with sustained long-term efforts, contributed to the development of sophisticated capability in infrastructure (including roads, railways, urban development, and water supply) in the country. While ADB made some contributions, other factors, particularly major government initiatives, made a greater contribution to the substantial improvement in CD in the PRC. Interestingly, most of these achievements appear to have been the result of project investments, rather than TA operations. The TA impacts on CD were found to be mixed. While some individual TA results were very successful, they were not highly successful as a group due to lack of strategic focus and inefficient management. The Sri Lanka CAPE also noted that positive CD outcomes achieved in some sectors (e.g., agriculture, education, and water supply) contributed to achieving sector outcomes.

63. On the other hand, the various CAPEs found less success with limited achievements of CD/sector outcomes in many other sectors (e.g., gas and railways in Bangladesh; agriculture in the Lao PDR; agriculture and industry in Bhutan; and some thematic areas such as public management and development planning in Cambodia, Indonesia, Lao PDR, Mongolia, Nepal, Papua New Guinea, and Philippines). Much of the CD assistance in thematic areas was provided through stand-alone, and oftentimes one-off or discontinuous, ADTA grants. The Cambodia CAPE found less effective CD performance in development planning because of the focus on improving technical skills at the individual level, rather than institutionalizing skill transfers and improving management, planning, and resourcing systems for more effective functioning at the organization level. The Pakistan CAPE found general lack of success in achieving CD outcomes due to political economy factors, which tended to suppress the capacities that had been developed.

64. The following *success drivers* were noted by the CAPEs: (i) caliber and commitment of both government officials and ADB staff involved; (ii) government priority to improve sector performance; (iii) strong government commitment and ownership during design and implementation; (iv) willingness of the organizations to improve their capacity; (v) consistency between ADB's operations and government priorities; (vi) ADB's long-term, continued support; (vii) ADB's appropriate mix of modalities; (viii) ADB's adequate supervision; and (ix) good government policies during implementation. The following *deterrence factors* were noted by the CAPEs: (i) the focus on improving technical skills at the individual level; (ii) insufficient baseline assessments at all levels; (iii) much of the CD assistance in certain areas (e.g., PFM, governance, and policy planning) being provided through discontinuous, stand-alone ADTA grants, without long-term continuity and an exit strategy; (iv) lack of evaluability to measure and monitor CD; (v) PMUs, in which CD activities were located, not integrated into the mainstream activities of EAs; (vi) late assignment of key counterpart staff; (vii) high counterpart staff

turnover; (viii) lack of understanding of CD as a process; and (ix) political economy factors, repressing the capacities that had been developed.

2. Sector Assistance Program Evaluations and Impact Evaluation Studies

65. The effectiveness of CD-related assistance was also assessed in some of the more detailed evaluation studies at the sector level. These include the IES for the power sector in Indonesia and seven SAPEs.³¹

66. In the power sector, CD outcomes were achieved in Bangladesh, Indonesia, and the Philippines (e.g., improved commercial operations of the sector in Bangladesh and Indonesia, and improved internal planning capabilities of the sector in Philippines). In the transport sector in the PRC, CD outcomes were achieved in both roads and railways (e.g., greater commercial orientation and assimilation of international good practices). In India, CD outcomes (e.g., enhanced capabilities of the EA in contract and environmental management) were achieved in the road sector, while little progress was made in the railways sector. In Pakistan, expected CD outcomes of the ongoing projects in the road sector were evolving (e.g., organizational restructuring and establishing modern road management). In the social sector, the Pakistan SAPE found that the delivery of nonphysical outputs (such as CD) in the social sector was frequently well below targets, or even absent, in both quantitative and qualitative terms. This resulted in a lack of achievement of CD outcomes. In the agriculture sector, the Lao PDR SAPE found that most of the expected CD outcomes were neither achieved nor sustained (e.g., inability to implement many policy reforms, including improved and sustained management and planning capacity of the EA).

67. The following *success drivers* were noted by the SAPEs: (i) a clear, objectives-based focus; (ii) long-term, continuous support; (iii) appropriate mix of modalities; (iv) good project design features, which introduced modern technologies and project management methods; (v) adequate diagnostics, especially at the organizational level; (vi) strong government commitment and ownership during design and implementation; (vii) adequate ADB supervision and staff dedication; and (viii) cooperation with other aid agencies. The following *deterrence factors* were noted by the SAPEs: (i) too complex and unrealistic design; (ii) lack of strategic focus, with diffused CD assistance; (iii) inadequate diagnostics; (iv) lack of government commitment and ownership; (v) long delay in consultant recruitment and implementation; (vi) insufficient coordination between consultants and counterpart staff; and (vii) staff and budget requirements in the postproject period not adequately considered.

3. Project/Program and Technical Assistance Performance Evaluation Reports

68. The PPER on the Capacity Building for Water Resources Project in Indonesia found that while the project was relevant at formulation and had achieved some CD outcomes (e.g., implementation of reforms in policies, legislation, management, and operations), achievements were less than planned in all cases. The TPER for the Capacity Building Support to Decentralization in Indonesia, which assessed four ADTA operations, indicated that while some CD outputs (e.g., reports and training) were achieved, it was almost impossible to measure CD outcomes. The TPER for the Institutional Strengthening and Policy Support to the Road Sector in Kazakhstan, Kyrgyz Republic, and Mongolia assessed five ADTA operations (three of which

³¹ For the power sectors in Bangladesh and Philippines; transport sectors in PRC, India, and Pakistan; social sector in Pakistan; and agriculture sector in Lao PDR (see Appendix 6).

involved CD through training and two through policy improvements) and a regional TA in the three countries. Performance was mixed, with the three training TA activities successful in achieving most of the planned CD outcomes (e.g., structural reforms at the organizational level), albeit less than expected since much of the training provided was not used due to high staff turnover. The two policy TA operations were partly successful, with lower than expected CD outcomes (e.g., implementation of policy reforms). The regional TA was unsuccessful.

69. The TPER for the Institutional Development and Capacity Building in the Water Supply and Sanitation Sector in the Lao PDR and Viet Nam assessed eight ADTA grants attached to loans. All of them achieved CD outcomes (e.g., improved managerial capacity of EA staff), albeit less than anticipated. However, another TPER for the Power Sector Institutional Strengthening Project in Viet Nam, which assessed five ADTA activities, found CD outcomes (e.g., improved organizational management, functions, and resourcing) to be limited. The PPER for the Public Sector Reform Program in the Federated States of Micronesia noted that an associated TA achieved a good number of CD outcomes (e.g., increased ability of young graduates in macroeconomics to carry on economic planning work after program completion). The TPER on public administration in the PRC found mixed results for a series of five TA grants for audit, procurement, and evaluation. While some CD outcomes were achieved (e.g., increased capabilities of concerned agencies to carry out their own audit and procurement activities), expectations were not fully met. A TPER was undertaken to assess CD related to project performance evaluation of ADB's nonlending operations in Nepal, Philippines, and Sri Lanka. Six ADTA grants were examined, two in each country. Two of the six ADTA grants (both in Sri Lanka) were found to have resulted in sustainable CD outcomes (e.g., establishment of a project performance management system, and continued utilization of that system to evaluate the performance of ADB assistance).

70. The following are *success drivers* noted in the PPERs and TPERs: (i) simple/realistic scope that was achievable within the given time frame and budget; (ii) a series of long-term, continued CD assistance activities to accumulate and sustain the outcomes, even when the past assistance may not have been initially fully successful; (iii) availability of financing for the implementation of recommendations, especially from the associated loans; (iv) realistic CD targets, and risks identified and mitigated; (v) active involvement and ownership by the EAs from design to completion; (vi) technically competent consultants; (vii) stability in staffing; (viii) strong commitment and ownership of the EAs and other network agencies; and (ix) good government policy during implementation. *Deterrence factors* noted in the PPERs and TPERs included (i) overambitious design relative to time and resources provided; (ii) inconsistencies between scope and terms of reference; (iii) lack of a holistic and long-term CD strategy for the sector; (iv) lack of demand-driven initiatives from government counterparts during design; (v) lack of government commitment during implementation; (vi) lack of effort to engage the EAs to fully participate in the design and implementation; (vii) inadequate coordination with other aid agencies; (viii) insufficient diagnostics at the organizational and network levels; (ix) lack of flexibility to make adjustments in project design; (x) low retention of trained staff due to low public sector salaries; and (xi) lack of mechanisms to translate outputs into outcomes.

4. Special Evaluation Studies

71. OED has undertaken three evaluations that focused either directly on CD or on the main instrument used to promote CD—ADTA grants.³² The Lao PDR SES on CD examined loans and ADTA in the agriculture, power, road, urban development, and water supply sectors approved during 1990–2003. It found mixed results, with some sectors (e.g., urban development, power, and transport) performing relatively better than others. An example of good CD outcomes achieved in these sectors was the improved organizational functioning of the agencies responsible for urban development and for power generation and distribution (e.g., increased ability to effectively implement externally funded projects, generate and manage recurrent finance, and plan future development activities). The evaluation concludes that (i) capacities were developed in several areas, although without a consistent pattern of comprehensive coverage; (ii) much of the capacity changes were found to be capacity substitution, which was not sustainable, as it generally involved short-term assignments to produce an output not embedded in the organization; and (iii) the country context influenced results through existing constraints on financial and human resources.

72. The Sri Lanka evaluation on CD assessed the effectiveness of CD support provided through loans and ADTA grants in three sectors: education, plantation crops, and water supply. The CD outcomes achieved at the individual, organizational, and network levels were modest because there was resistance to changes in formal, established organizations. By contrast, the major CD impacts occurred at the end-user beneficiary level (or sector outcomes). These were achieved mainly through policy dialogue and training provided not only to government agencies concerned, but also to end-users, and through subsequent sustained use of the training. These CD impacts included (i) significant increase in smallholder tree crop production and consequent incomes, (ii) sustainable initiatives in developing rural water supply schemes, and (iii) significant changes in the structure and efficiency of the basic education system.

73. The SES on the evaluation of TA did not focus on assessing the performance of CD assistance per se, but of all TA, which is a major modality used by ADB for CD support. It examined a sample of 66 TA operations, 72% of which were rated as successful or highly successful. The conclusions drawn by the evaluation were as follows: (i) ADB rarely used TA strategically to position itself as the most trusted advisor in a sector; and even when it had established strategic influence, it sometimes missed follow-up opportunities that could have consolidated its role; (ii) opportunities were lost by spreading support too thinly over too many sectors; (iii) there was insufficient continuity in TA operations; (iv) ADB staff who designed and administered TA did not have CD experience; (v) CD diagnostics were often neglected or conducted without methodological rigor; (vi) TA budgets were often not based on the intervention requirements; and (vii) country ownership was often weak.

74. *Success drivers* identified by these SESs included the following: (i) ADTA grants combined with loan projects provided longer term support and incentives for EAs to try to enhance their capacities; (ii) continuity of CD support in a sector allowed for impacts to build up and increased the likelihood of sustainability; (iii) a realistic CD approach with proper aid agency preparation and EA participation was needed; and (iv) baseline assessments were important at all levels, especially in the sectors where responsibilities had been devolved to local levels. The

³² ADB. 2004. *Special Evaluation Study on Capacity Development Assistance of the Asian Development Bank to the Lao People's Democratic Republic*. Manila; ADB. 2006. *Special Evaluation Study on Lessons in Capacity Development: Sectoral Studies in Sri Lanka*. Manila; and ADB. 2007. *Special Evaluation Study on the Performance of Technical Assistance*. Manila.

SEs noted the following *deterrence factors*: (i) deficiencies in ADB's approach to CD support, most of which focused on CD inputs and outputs instead of outcomes, without explicit linkage to a strategic framework for CD at the national level; (ii) lack of clearly stated CD goals and objectives; (iii) lack of baseline assessments to identify CD needs and a strategy for addressing them; (iv) lack of target indicators for monitoring progress; (v) lack of long-term support with an exit strategy; and (vi) lack of attention to involve stakeholder participation.

75. ADB's Pacific Department has recently commissioned a regional study to assess CD performance for 21 cases in 11 countries in its region. The cases cover a range of sectors/areas from economic planning to infrastructure, health, legal reform, civil society enhancement, and fisheries, plus one regional initiative. The interim findings were shared at a workshop held at ADB headquarters in August 2007, and are summarized in Box 3.

Box 3: Summary Findings of the Pacific CD Study

According to the draft interim findings, the key factors influencing CD success included (i) government participation and ownership; (ii) leadership and vision; (iii) capacity of local stakeholders to direct or demand CD measures; (iv) relevance, readiness, and receptivity; (v) investing in understanding; (vi) getting the incentives right; (vii) an enabling environment; (viii) flexibility and adaptiveness; (ix) effective use of technical advisors; (x) ensuring sufficient time; (xi) taking a systems approach; (xii) harmonization and coordination; and (xiii) political economy considerations.

The implications of these findings are that future ADB CD-related loans and TA projects should (i) include demand-driven pilot initiatives in key ADB sectors/thematic areas, (ii) provide inputs to facilitate new approaches (e.g., stakeholder analysis and capacity assessments), (iii) strengthen participatory approaches to enhance ownership and effectiveness of CD programming, (iv) make informed programming decisions based on a strategic analysis of capacity options, (v) place increased emphasis on the capacity for demand and local accountability, and (vi) examine the possibilities of CD using local and indigenous resources.

C. Summary of Findings

76. The findings from the body of OED's ongoing and completed evaluation studies related to CD reveal mixed results, with no consistent patterns across sectors, countries, regions, or time. However, consistent factors affecting CD performance can be observed and identified as lessons to improve ADB's future CD interventions. Drawing on many of the successful and unsuccessful cases, the key factors driving success (*success drivers*) and deterring success (*deterrence factors*) of CD performance can be divided into four groups: (i) design/quality-at-entry factors within ADB's control, (ii) design/quality-at-entry factors beyond ADB's control, (iii) implementation factors within ADB's control, and (iv) implementation factors beyond ADB's control. Both design and implementation factors beyond ADB's control are contextual/external level factors that act as incentives or constraints/risks to CD performance. Although ADB has no control over these risks, some of the risks and mitigation mechanisms can be identified at the design stage. The four groups of factors are shown below in terms of success drivers.

Success Drivers Contributing to Effectiveness and Sustainability of CD Interventions

1. Design/Quality-at-Entry Factors within ADB's Control	2. Design/Quality-at-Entry Factors beyond ADB's Control
<ul style="list-style-type: none"> • Systems to measure and monitor CD • Strategic direction with realistic CD objectives • Adequate diagnostic baseline assessments at all CD levels (individual, organizational, network, and contextual levels) • Long-term continuity, careful phasing/sequencing, and exit strategy • Appropriate mix of modalities • Mainstreaming PIU/PMU activities into target agencies' normal operations • Adequate staff time and skills, and financial resources • Strong commitment of and ownership by target agencies • Cooperation and harmonization with development partners 	<ul style="list-style-type: none"> • Conducive political environment • Conducive economic/fiscal environment • Conducive policy/institutional environment • Conducive sector capacity
3. Implementation Factors within ADB's Control	4. Implementation Factors beyond ADB's Control
<ul style="list-style-type: none"> • Sufficient and qualified staff for implementation and supervision • Flexibility during implementation and supervision • Selection of qualified consultants and limited delays in implementation 	<ul style="list-style-type: none"> • Continued conducive enabling environments • Continued commitment of and ownership by target agencies • Continued cooperation and harmonization with development partners

ADB = Asian Development Bank, CD = capacity development, PIU = project implementation unit, PMU = project management unit.

IV. ISSUES AFFECTING CAPACITY DEVELOPMENT RESULTS

A. Design Factors within ADB's Control

1. Systems to Measure and Monitor CD

77. Good evaluability helps to clarify objectives and outcomes, reconcile the expectations of EAs and ADB, and provide a sound framework within which to estimate the required inputs (e.g., human resources, financial resources, and time) linked to expected outputs and outcomes. It also provides a framework to judge progress and make midterm corrections. OED findings suggest that having systems in place to measure and monitor CD is a major success driver, without which CD assistance is less likely to be successful. Most of ADB's CD assistance tended to lack evaluability, making it difficult to assess its performance in terms of effectiveness or results achieved.

2. Strategic Direction with Realistic CD Objectives

78. Successful CD operates within the realm of the possible, and reflects existing individual capacity, organizational structure, enabling environment, funding provided, and time frame available for the interventions. Lack of strategic direction and overambitious CD goals/objectives

were identified by some evaluation studies as a major deterrence factor underlying poor CD performance. Several evaluations point out that some ADTA grants for CD suffered from design weaknesses, including inconsistencies and overlaps between their scope and terms of reference, and overly ambitious scope for the amount of resources available. The Sri Lanka SES on CD suggested a phased approach to CD, since there is often resistance to change. It is often unrealistic to expect sensitive institutional reforms to occur in a short time frame, particularly in a changing political environment. Scattered assistance and piecemeal outcomes do not usually result in the achievement of CD results. Focus and consistent engagement over a decade or more are often required to achieve major CD objectives.

79. In contrast to some of the disappointing results, evaluation studies also document positive outcomes. In Indonesia's power sector and the PRC's transport sector, good strategic direction with realistic CD goals/objectives was a major success driver in reforming concerned organizations and sector policies, thus contributing to the achievement of the desired sector outcomes.

3. Adequate Diagnostic Baseline Assessments at All CD Levels

80. Given that the time and expertise requirements to undertake proper diagnostics are often not provided, it is not surprising that lack of adequate diagnostics was common and was identified as one of the most important factors deterring expected CD performance in many evaluations. Diagnostics at all four CD levels (individual, organizational, network, and contextual levels) during the design stage are needed to gain insight into the issues that need to be tackled at each level. Otherwise, there is a risk that CD assistance will not address the right issues or identify the right set of CD outputs and outcomes. Diagnostics should be a prerequisite for all CD assistance to increase government commitment and build ownership, since the process of doing these joint analyses will enhance the understanding of both sides on what the real issues are and how to address them.

4. Long-Term Continuity, Careful Phasing/Sequencing, and Exit Strategy

81. Many evaluations relating to CD identified a need for a long-term perspective and commitment to increase the probability that CD outcomes are achieved and sustainable. Experiences show that long-term, continued support created a "critical mass" of CD beneficiaries (e.g., in Cambodia's and Nepal's education sectors). While recognizing that CD is often a long-term process, self reliance and an exit strategy need to be kept in mind.

5. Appropriate Mix of Modalities

82. Almost all recent CAPEs, a number of SESs, and evaluations of many ADTA projects have found that one-off, stand-alone ADTA grants that were not followed up by other operations are generally not an effective modality for achieving CD improvements.³³ The following factors contributed to the less than optimal outcomes: (i) stand-alone ADTA is often prepared and implemented over a relatively short period, but it usually takes a period of years to achieve CD outcomes; (ii) limited funds are available; (iii) there is limited attention/commitment from concerned agencies; and (iv) the CD initiatives were often implemented through project implementation units (PIUs) that were separate from the mainstream activities of the concerned

³³ Sometimes, it needs to be acknowledged that ADB is working with other development partners and its apparent stand-alone TA may be part of a wider, longer-term commitment by others. Notwithstanding this, stand-alone TA activities, particularly one-off, should be subject to careful scrutiny.

agencies. An appropriate mix of modalities (e.g., project loans combined with ADTA grants, or project loans combined with ADTA grants and policy-based loans) that results in sustained ADB involvement over a decade or more appears more likely to deliver effective CD results, as the different products often complement one another. For example, while nonlending elements can be used to provide more training during loan implementation and to undertake further diagnostic work, project elements can focus on utilizing the trained skills, and program elements can be used to improve the overall enabling environment (see Box 4).

Box 4: Appropriate Mix of Modalities as a Key Success Driver in the Tree Crop Sector in Sri Lanka: Results from the Sri Lanka SES on CD

The Sri Lanka SES on CD assessed the CD-related performance of ADB's lending and nonlending products in the tree crop sector from the mid-1980s to the end of 2005. These consisted of (i) three sector-wide program loans; (ii) three project loans aimed at improving the plantation subsector (commercial estates for tea, rubber, and coconut); (iii) two project loans aimed at smallholders in the tea subsector; and (iv) two project loans targeting the minor perennial crops subsector (coffee, spices, and fruits). These were supplemented by 10 associated ADTA grants.

Significant CD-related and sector-wide outcomes were achieved under the combination of these programs, projects, and TA grants because they were interrelated and self-reinforcing. *Outputs* from the program loans were important policy changes, including (i) removal of financial distortions; (ii) clustering of large, publicly-owned estates into regional plantation companies under private management; and (iii) improvements in extension services. The resulting *outcomes* of these policy measures were positive impacts on the enabling environment under which all the three subsectors operated. The project loans for the plantation subsector carried these reform initiatives further to improve *CD-related outputs* at the individual and organizational levels (e.g., further privatizing the regional plantation companies, training to upgrade the technical and managerial capacities of staff members of private regional plantation companies, and retraining surplus estate labor for employment outside the plantation industry). These resulted in *CD-related outcomes* in terms of more efficiently structured and financially viable plantation subsector. Similarly, the project loans for smallholders in the tea subsector and the minor perennial crops subsector produced *CD-related outputs* at the individual and organizational levels (e.g., direct farmer training, provision of credit, and establishment of research facilities). These led to significant *CD-related outcomes* in the form of increased replanting efforts, and improved cultivation and processing practices. *CD-related outputs* from the TA grants included privatization for the estates, and a strategic plan for tea production in the country. These supplemented the *CD-related outcomes* of the project investments, contributing to *sector-wide outcomes* in terms of significant increases in (i) access to credit and research and extension support, (ii) production and incomes of families involved in the sector, and (iii) foreign exchange earnings for the country.

A mixture of program loans, project loans, and ADTA grants was thus instrumental in reviving the tree crop sector (and especially the critically important tea subsector), developing significant capacity at all levels, and increasing incomes among one of the poorest sections of the country's population.

6. Mainstreaming PIU/PMU Activities into Target Agencies' Normal Operations

83. Some evaluations distinguished between the terms "CD" and "capacity substitution." The latter implies a provision of capacity for a limited period or to a limited number of people who are not likely to continue working in the EA after a loan or TA ends. Where capacity is created exogenously, it is not usually transferred, acquired, or developed broadly in the EA, and previously existing capacity might even be eroded. This situation tends to result from the establishment of externally staffed PIUs/PMUs, separate from the EAs' usual operations.

84. The recent SES on PIUs (Box 5) indicated that as many as 90% of ADB projects were implemented through PIUs, half of which were externally staffed. While having separate,

externally staffed PIUs is useful for the purpose of implementing projects effectively, they should not be set up apart from the mainstream structure of the EAs. Otherwise, there will be no transfer of knowledge/skills, nor continuation of activities to ensure sustainability once the consultants and outside staff leave after project completion. If CD is an expected outcome, the results are seldom effective unless PIU staff become part of the EAs' mainstream structure after project completion. Separate PIUs tend to be used in countries of particularly low capacity (e.g., Cambodia, Lao PDR, Nepal, and the Central Asian republics) to ensure that the required work is completed on time, regardless of the CD impact in terms of skills transferred/acquired.

Box 5: Summary Findings of the SES on the Role of PIUs

Around 90% of ADB's investment projects were managed using some type of PIUs. Almost a sixth of the projects used internally staffed PIUs, and a third used externally staffed PIUs; the remaining 52% of projects had a mix of internal and external staff. Forty-four percent of PIUs were temporary and scheduled to be dissolved upon completion of the project; 26% were unclear about their fate after project completion; only 12% of PIUs regarded themselves as "permanent" (i.e., they expected to find new projects to manage upon completion of the present projects), and 18% were to merge (i.e., the PIU staff would be [re-]absorbed as permanent staff of the parent agency).

PIUs are used by ADB and governments primarily as a mechanism to implement projects and to create capital assets, rather than as a tool to build human or institutional capacity. The effects of PIUs on CD in the EAs are variable. The study confirmed the risk of separate, externally staffed PIUs undermining the agencies' project management capacity. There is an additional burden on DMCs of the many different requirements of external funding agencies.

Recommendations:

- If the loan modality and government preferences require the establishment of a PIU, ADB should encourage the use of PIUs that are staffed fully by the EAs and implementing agencies themselves.
- In cases where externally staffed PIUs are more efficient, the risk that they will undermine the parent agencies' project management capacity needs to be assessed as a standard practice and mitigated; ADB and the EAs should agree on their exit strategy and/or transformation for the operation and maintenance phases of the project.
- The cost of project management and the development of capacity to manage projects should be more systematically analyzed during project preparation. Loan financing of project administration costs should be well justified.

7. Adequate Staff Time and Skills, and Financial Resources

85. The recent SES on TA operations found that ADTA fact-finding missions are too short and budget constraints are too limited to prepare proper CD interventions. The average time used to design an ADTA was just 2.6 staff weeks, with less than half of that time spent in the country meeting with EAs and other stakeholders. There is inadequate time to do a proper diagnosis, foster participation, assess alternative designs, and ensure that risks are adequately identified and mitigated. The preparation of most stand-alone ADTA activities was undertaken by only one staff member, often a relatively junior person who generally did not have experience in CD design. The SES also reports that the budget allocated for TA support for CD was often not needs-based. Some evaluations (e.g., the Cambodia CAPE) found that inadequate staff skills as related to CD (e.g., lack of understanding of the differences between CD outputs and outcomes, and the tendency to equate CD at the organizational level with a mere provision of training at the individual level) were a major constraint to designing the right kind of capacities that needed to be developed.

8. Strong Commitment of and Ownership by Target Agencies

86. One important success driver cited by many evaluations is the need for CD assistance to be demand driven. Demand-driven CD interventions are more likely to ensure the involvement, commitment, and ownership of concerned agencies from the design stage. This, in turn, provides positive reinforcement to the CD process throughout implementation.

9. Cooperation and Harmonization with Development Partners

87. Many of the most successful CD initiatives are those undertaken in partnership with other aid agencies. For example, the Indonesia CAPE reported that CD success in the power sector was the result of ADB and the World Bank taking on well-defined and shared roles. Similarly, the Lao PDR CAPE found that good aid coordination and harmonization in the health sector contributed to successful CD outcomes.

B. Design Factors beyond ADB's Control

1. Conducive Political Environment

88. ADB often operates in countries that are experiencing difficult political circumstances. While these are external issues beyond ADB's control, with proper diagnoses ADB can identify potential risks and possibly mitigate them through policy dialogue/conditionalities or policy/loan covenants. Unfortunately, many ADB-supported CD interventions lacked such diagnoses. Factors related to the political environment (e.g., insurgencies, frequent changes in government, etc.) typically act as a deterrence factor to CD performance.

2. Conducive Economic/Fiscal Environment

89. Many former centrally planned countries have experienced profound economic and fiscal changes as they have progressed toward a market economy. Insufficient counterpart funds and recurrent budgets to sustain projects has been a frequent finding of evaluation. In some countries, the extremely low salaries of public servants serve as a deterrence factor in achieving CD outcomes. Again, the need is for better diagnostic baseline assessments of the enabling environment. Better understanding of nonconductive environment should identify factors and risks to be considered in the design of CD interventions.

3. Conducive Policy/Institutional Environment

90. Policy/institutional weaknesses can deter achievement of expected CD outcomes. In Nepal, for example, the existing civil service regulation requires a rotation of civil servants every 2 years (except for teachers and statisticians). This kind of policy environment undermines the sustainability of the capacity that has been created. Adequate baseline assessments at the contextual level should have led to a better understanding of this issue and possibly a questioning of the feasibility of the design of the CD interventions. The lesson is that the design of CD initiatives should be grounded in a strong sense of realism about the enabling environment and whether political, economic, fiscal, policy, and institutional factors are consistent with the objectives, scope, and timing of the planned CD interventions.

4. Conducive Sector Capacity

91. In former centrally planned and fragile countries, initial capacities at the individual and sector levels were often either weak or not well understood. CD measures must be designed with such constraints in mind. In countries with limited sector capacity, dramatic CD improvements should not be expected in the short term. A realistic baseline assessment of what can be achieved is essential. Often, the best that can be achieved in the short to medium term is a gradual improvement in basic technical capacity at the individual level, and a fuller understanding of the role of the agency at the organizational and network levels.

C. Implementation Factors within ADB's Control

1. Sufficient and Qualified Staff for Implementation and Supervision

92. In ADB, ADB supervision normally gets low priority among operational activities. In addition to increasing the number of qualified technical staff, delegating more projects to appropriately staffed resident missions might help to address this problem. Adequate supervision by ADB staff was an important success driver in education, governance, and PFM in Cambodia. Delegating these projects to the resident mission contributed to these successful outcomes.

2. Flexibility during Implementation and Supervision

93. Much of ADB's CD assistance takes place in unstable and changing environments, especially in fragile/transition states. Many of the changes could not be foreseen or captured in diagnostic baseline assessments. Thus, flexibility during implementation and supervision is needed to help adjust CD activities to achieve target outcomes. To be successful, this approach requires strong supervision by ADB, something that is often not present.

3. Selection of Qualified Consultants and Limited Delays in Implementation

94. High-quality consultants attuned to broader CD issues, rather than just providing training or preparing reports, were cited by many evaluations as a success driver for CD. Problems encountered in evaluations include not properly sequencing activities, underestimating the time allowed for the consulting services to be delivered, and insufficient budget. Inadequate terms of reference may reflect insufficient diagnostics undertaken by ADB staff who did not have adequate CD training and experiences. Long delays in the recruitment of consultants are documented in some evaluations—sometimes a major CD deterrence factor as it eroded momentum and commitment in the EAs. Overall, evaluation findings suggest that the selection of good consultants, together with proper terms of reference, is one of the success drivers of good CD performance. While not all the selected consultants perform well, the large majority of consultants were rated as competent by EAs and ADB staff.

D. Implementation Factors beyond ADB's Control

1. Continued Conducive Enabling Environments

95. In some cases, a nonconducive environment during TA and project design did not continue long into implementation, but in many cases, problems continued long enough to adversely affect CD performance. In other cases, problems did not exist during the design stage

but developed unexpectedly during implementation. Adverse political economy factors can sometimes result in a repression of institutional capacities that have been developed.

96. Nonconductive economic/fiscal environment (e.g., inadequate government budgets) that existed during the design of many TA and loan projects continued into implementation. This made expected CD outcomes more difficult to achieve. In some cases, the problems in the economic/fiscal environment were so severe that it was not possible to address their impacts on CD initiatives during implementation. In such cases, it would have been better to recognize the risks and not approve the TA or loan projects. In other cases, the nonconductive environment during implementation (e.g., financial crises) could not be foreseen during the design stage.

97. The lack of diagnostic baseline assessments at the contextual level at the design stage contributed to the inability to address and mitigate the risks associated with these problems, which adversely affected CD performance during implementation. While such assessments may provide guidance on how to address the problems, doing so will require special efforts on the part of ADB during implementation. Given the persistent weaknesses related to loan and TA administration documented in many evaluations, one must question if it is reasonable to expect more than normal supervision efforts, even in cases of difficult external environments.

2. Continued Commitment of and Ownership by Target Agencies

98. Government commitment and ownership of CD initiatives is an important CD success driver. This should start from the design stage and continue during and after implementation. A measure of commitment during implementation is the provision of sufficient counterpart funds/staff and recurrent funding support. Some CAPEs found continued strong government commitment, which resulted in successful CD and sector performance. This may have been due, in part, to the fact that many of the agencies concerned were self-financing and able to provide appropriate salaries and incentives for their staff. The CD SES found that the provision of adequate recurrent cost financing during implementation is a good proxy indicator of the continued strong commitment and ownership of the government. Conversely, delays in implementing some important institutional reforms are indicators of weak government ownership. In such cases, ways must be found to restructure the CD design to increase government ownership during implementation (e.g., by identifying some proxies of government ownership at the design stage and monitoring them closely during implementation).

3. Continued Cooperation and Harmonization with Development Partners

99. Evaluation findings indicate that close coordination and harmonization with other aid agencies from design to implementation is an important success driver of CD performance in many cases—an illustration of which in Cambodia's PFM is given in Box 6. Despite continuous efforts at aid coordination among major partners, there are times when they work at cross purposes. All funding agencies have their own agendas, which are not always harmonized, and DMC governments sometimes find it difficult to efficiently coordinate aid agencies to focus on the national priorities in the country's development agenda. Such instances can have negative impacts on CD activities. The lesson is that efforts need to be made during implementation to ensure that the actions of one partner do not adversely affect the programs of others. If problems of agencies working at cross purposes are identified, additional resources must be invested in aid coordination during implementation to ensure that CD objectives are achieved.

**Box 6: What Made CD Performance Successful in Cambodia's PFM?
A Cluster TA and Strong Aid Harmonization to Address a Key CD Constraint at the Contextual Level**

To improve capacity in Cambodia's PFM, ADB provided a cluster TA on Strengthening PFM (2001), followed by a joint study with the World Bank on Integrated Fiduciary Assessment and Public Expenditure Review (2003) and another ADTA on Support to Public Financial Management Reform Program (2004). ADB performance, in coordination with other aid agencies, was successful in contributing to the country's progress in achieving CD outcomes in PFM. At the *organizational level*, CD outcomes included achievement of many planned indicators, leading to progress in the implementation of the country's PFM reform program. However, the expected CD outcome of full integration of the medium-term expenditure framework (MTEF) into the annual budget cycle has not yet been achieved. The delay was caused by (i) inadequate design for MTEF introduction, budget formulation, and strategic expenditure analysis; (ii) lack of full integration with the Technical Assistance Cooperation Program management; and (iii) weak initial absorptive capacity of the Ministry of Economy and Finance—the EA. This expected CD outcome is likely to be achieved because of continued support from other aid agencies. At the *network level*, the CD outcome was achieved in terms of an institutionalized system of aid coordination (as reflected in regular meetings of more than 18 working groups, and the introduction of the SWAP into the country's PFM reform program to ensure continued funding from various sources). The *sustainability* prospects of CD outcomes are likely, given the expected increase in the Government's own revenues through the implementation progress of the PFM reform program itself, and the establishment of the Multi-Donor Trust Fund (managed by the World Bank) to provide salary supplements to retain relevant EA staff.

While stand-alone ADTA grants, especially one-off and/or discontinuous ones, were found to be less effective as a modality to improve CD in many cases, they are generally effective in this particular case due to the following support factors, which acted as *success drivers*: (i) a cluster TA was used at the beginning, which in itself is a long-term kind of assistance for sequenced reforms in a situation where the sector has been hampered by numerous constraints; (ii) strong aid harmonization to provide coherent efforts in strengthening the Government's PFM reform program and in addressing one of the most important CD constraints at the contextual level (i.e., existing low public sector salaries, which resulted in low retention of trained staff at the individual level); and (iii) strong government ownership.

V. CONCLUSIONS

100. Through its rolling 3-year work program, OED has tried to increase its value addition through the conduct of more strategically important evaluations that are timed to feed in to new country partnership strategies, policy reviews, and other important decisions. It has sought to improve the rigor of its evaluations by introducing new guidelines and to provide more opportunities for stakeholder input at the early stage of studies. Significant advances have been made in knowledge management.

101. The findings on the performance of ADB's sovereign projects and programs show that of the 19 projects/programs evaluated in 2006, 11% were rated *highly successful*, 63% *successful*, 21% *partly successful*, and 5% *unsuccessful*, better than the long-term average of 65% *successful* (including those rated *highly successful*), 27% *partly successful*, and 8% *unsuccessful*. The findings also show a long-term trend towards improved performance that started in the mid-1980s. The long-term results show that projects are more likely to be successful in certain sectors and countries. The performance of program loans was unacceptably low from 1984 to 1991 but has improved since then to approach the success rate of projects.

102. Factors within ADB's control that are commonly associated with project success are (i) thorough project preparation; (ii) adoption of a broad sector approach, which provides flexibility

through a less rigid design; (iii) close coordination among funding agencies; and (iv) administration by the resident mission. Factors external to ADB that improve the chances of project success include (i) strong ownership by the government, (ii) satisfactory institutional capacity of the EA, (iii) strong sense of beneficiary ownership fostered through extensive participation, (iv) availability of counterpart funds, and (v) existence of a conducive policy environment.

103. For program lending, common success factors within ADB's control are (i) consistency of reform outcomes with the government's reform agenda and priorities; (ii) sufficient analysis and dialogue; (iii) policy change consensus among decision makers and stakeholders; (iv) coherence of program design and policy matrix; (v) execution of focused, manageable conditions prior to program start-up; (vi) suitability of EA capacity; and (vii) the likelihood that direct and indirect reform costs were identified and met by the program or counterpart funding. Conversely, factors that lessen the chances of success include (i) insufficient consideration of macroeconomic and wider sector policies; (ii) lack of counterfactual analysis, and poorly understood outcome and policy alternatives; (iii) complex and ambitious reforms and overly complex design; and (iv) backloading of conditions to second and third tranches.

104. On the CD theme, as stated in the paper on CD produced by the European Commission/EuropeAid: *Institutional Assessment and Capacity Development: Why, What, and How?* (footnote 28), aid agencies can, by doing less and doing it well, often do better for CD. This should be a guiding principle for ADB's CD activities. Focusing ADB's limited resources on more realistic CD interventions will generally result in the achievement of better development results. Evaluation findings indicate that there have been many cases in the past when it would have been better for ADB to focus on less ambitious CD objectives. However, even less ambitious CD initiatives need to be supported by adequate design and monitoring frameworks, good diagnostics to identify and mitigate risks outside/beyond ADB's control, use of the right mix of modalities, long-term engagement, and an inclusive participatory approach by target agencies and relevant partners. Much still needs to be done by ADB to put the preconditions for good CD practices in place. For example, ADB should improve some internal business practices to be attuned to good CD design and implementation, including improving staff skills in CD, allocating more time and qualified staff to TA and project supervision, reducing cumbersome implementation and supervision procedures, and making optimal use of resident missions.

105. Recommendations directed on ways to address some of the issues raised in these findings will be presented in OED's ongoing/forthcoming SES on CD. However, some pointers to possible future directions include the following:

- (i) willingness to pilot alternative approaches to the traditional modalities of CD, particularly those that might be less resource intensive, and more country-led (see Boxes 7 and 8);
- (ii) incorporating focused CD strategies into country partnership strategies that take account of the resources required and available;
- (iii) basing CD strategies at the country level on sound diagnostics of existing capacities and barriers to improved capacities—this will require investments in acquiring/building ADB's staff skills in institutional analysis and the theory and practice of CD; and

- (iv) ensuring that ADB's *Medium-Term Framework and Action Plan for Integrating Capacity Development into Country Programs and Operations* is fully resourced, reviewed periodically, and updated as necessary.

Box 7: Testing Innovative Approaches to CD: The MfDR Community of Practice

ADB has adopted an innovative approach to building capacity for MfDR in its DMCs. Global recognition and replication in other regions followed its presentation at the Third Roundtable on MfDR held in Hanoi in February 2007.

The Community of Practice on MfDR (<http://cop-mfdr.adb.org>) is an on-line forum and virtual learning network. Its mission is to promote learning and knowledge exchange among public managers, organizations, EAs, and practitioners. The Community of Practice currently has 80 core members from 14 countries. Its most innovative feature is that it is led by developing country professionals. ADB's role is only supportive, particularly in terms of providing the Internet platform and some administrative support materials.

The Community of Practice has shown early promise, with vibrant debates and exchanges of knowledge taking place. To date, it has conducted six on-line discussions on key MfDR topics over a 2-year period, generating over 200 posts from MfDR practitioners in DMCs.

Box 8: Testing Innovative Approaches to CD: South Asia Department Initiatives

In recent years, ADB's South Asia Department has tried several innovative approaches for CD. One of them was to strengthen the policy network in India, Nepal, and later in the region to provide governments with a forum for policy dialogue and analysis in priority areas and facilitate the development of a modality for enabling the public and private sectors to work together in revitalizing the economy through policy reform. However, these new initiatives are too early to assess.

The South Asia Department also carried out a study on Capacity Development in South Asia during 2005 and 2006 to assess the performance of its past CD interventions through traditional modalities (loans and TA grants) in nine EAs in three countries (Bangladesh, Nepal, and Sri Lanka). The sectors were rural infrastructure, power, capital markets, and livestock. The focus was at the organization level. Overall, the findings were that CD performance had been generally successful in the rural infrastructure sector in Bangladesh and Nepal, the livestock sector in Nepal, and the power sector in Bangladesh. This led to more favorable policy environments and more effective/efficient project implementation. Less favorable performance was noted in the capital markets sector in Bangladesh where improvements could not be made due to a lack of incentives for EA staff, and in the power sector in Nepal and Sri Lanka, where it proved difficult to improve the policy and enabling environments. Nonetheless, little fault was found with ADB's approach in the latter cases. The problem was more of ownership on the part of the government and target EAs as well as overall contextual constraints.

The study suggested that CD interventions be long term, carefully planned/sequenced, and tied to overall EA and project performance. Some innovative suggestions were also made. These included

- establishing a CD fund to finance long-term CD in selected sectors in South Asian DMCs;
- giving DMCs the responsibility for managing their CD fund allocations;
- establishing and progressively strengthening a clear link between investment project loans and evidence of a DMC's commitment to progress with CD in the selected sectors;
- using resident missions as the focal point for engaging with CD mandated-offices in the selected EAs; and
- steering the policy dialogue between ADB and DMCs using medium- and/or long-term roadmaps for sector development with clearly defined CD components, and focusing on joint assessment of how CD has influenced investment project performance.

It was further suggested that these measures should first be tested through a pilot project.

OED REPORTS AND WORK PROGRAM

Table A1.1: Evaluations Completed in 2006

Ref. No.	Title	Loan/TA No.	Country	Rating
Project/Program Performance Evaluation Reports				
PE-678	1 Second Financial Sector Program	L1458(SF)	LAO	PS
PE-679	2 Fangcheng Port Project	L1427	PRC	S
PE-680	3 Fujian Pacific Electric Company	EI7144/1610	PRC	S
PE-681	4 Island Development Program	L1693(SF)	TUV	S
PE-682	5 Nghi Son Cement Corporation	EI7133/1502	VIE	S
PE-683	6 Primary Health Care Project	L1348(SF)	LAO	S
PE-684	7 Flood Damage Rehabilitation Project	L1666 (SF)	BAN	S
PE-685	8 Higher Education	L1224(SF)	PNG	PS
PE-686	9 Rural Microenterprise Finance Project	L1435(SF)	PHI	S
PE-687	10 Outer Island Agriculture Development Project	L1412(SF)	TON	US
PE-688	11 Health and Nutrition Sector Development Program	L1675/1676	INO	S
PE-689	12 Capacity Building Project in the Water Resources Sector	L1339	INO	PS
PE-690	13 Private Sector Infrastructure Facility	L1480/1481	IND	S/PS
PE-691	14 Hebei Roads Development Project	L1617	PRC	HS
PE-692	15 Chengdu-Nanchong Expressway Project	L1638	PRC	S
PE-693	16 Equity Investment in and Proposed Partial Credit Guarantee to Dahej Liquefied Natural Gas Terminal	EI7192	IND	S
PE-694	17 Rural Enterprise Development Project	L1504	UZB	PS
PE-695	18 Social Protection Sector Development Program	L1622/1623	INO	S
PE-696	19 Changchun-Harbin Expressway Project	L1641/1642	PRC	HS
Technical Assistance Performance Evaluation Reports				
TE-54	1 TA in Support of the Pacific Financial Technical Assistance Centre in the Pacific Island Countries	TAs 5604/5672/ 5817/6003/6049/ 6129/6206	n.a.	S
TE-55	2 Selected Technical Assistance Projects in Public Administration in People's Republic of China	2845/3103/3375/ 3457/3631	PRC	HS/S/PS ^a
Special Evaluation Studies				
SS-65	1 Lessons in Capacity Development: Sectoral Studies in Sri Lanka	n.a.	SRI	n.a.
SS-66	2 Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting	n.a.	n.a.	n.a.
SS-67	3 Fisheries Policy	n.a.	n.a.	US
SS-68	4 Urban Sector Strategy and Operations	n.a.	n.a.	PS
SS-69	5 Involvement of Civil Society Organizations in Asian Development Bank Operations	n.a.	n.a.	n.a.
SS-70	6 Environmental Safeguards	n.a.	n.a.	n.a.
SS-71	7 Involuntary Resettlement Safeguards	n.a.	n.a.	n.a.
Country Assistance Program Evaluations				
CE-11	1 Uzbekistan	n.a.	UZB	n.a.
CE-12	2 Lao People's Democratic Republic	n.a.	LAO	n.a.

Ref. No.	Title	Loan/TA No.	Country	Rating
Sector Assistance Program Evaluation				
1	Road Sector in Pakistan	n.a.	PAK	S
Annual Evaluation Reports				
1	Annual Report on Loan and TA Portfolio Performance for the Period Ending 31 December 2005	n.a.	n.a.	n.a.
2	2006 Annual Evaluation Review	n.a.	n.a.	n.a.
Technical Assistance Completion Report				
1	Impact and Special Evaluation Studies of Asian Development Bank Operations in Developing Member Countries	RETA 5979	REG	n.a.
Other				
1	Guidelines for the Preparation of Performance Evaluation Reports of Public Sector Operations	n.a.	n.a.	n.a.
TA Processing				
1	TA for Selected Evaluation Studies for 2006 (\$1.4 million)	RETA 6312	n.a.	n.a.

BAN = Bangladesh, HS = highly successful, IND = India, INO = Indonesia, LAO = Lao People's Democratic Republic, n.a. = not applicable, no. = number, PAK = Pakistan, PHI = Philippines, PNG = Papua New Guinea, PRC = People's Republic of China, PS = partly successful, REG = regional, Ref. = reference, RETA = regional technical assistance, S = successful, SF = special fund, SRI = Sri Lanka, TA = technical assistance, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VIE = Viet Nam, US = unsuccessful.

^a HS = TAs 3103, 3357, 3631; S = TA 2845; PS = TA 3457.

Table A1.2: OED Work Program, 2007–2009

Items	2006 (only those for completion in 2007)	2007	2008	2009
Annual Reports				
1. Annual Evaluation Review (Theme Chapter)		1 (Capacity Building)	1 (Technical Assistance)	1 (Regional Cooperation and Integration)
2. Annual Review of Portfolio Performance		1	1	1
Country Assistance Program Evaluations (CAPEs)				
1. Full CAPEs	PAK, IND, PRC, SRI		Regional CAPE - ADB Operations in the Pacific Region MON, NEP, PNG	BAN, PHI, VIE
2. CAPE Updates/Briefs				BHU
Sector Assistance Program Evaluations (SAPEs)				
	<ul style="list-style-type: none"> • Transport SAPE in IND • Power SAPE in IND • Transport (Roads and Railways) SAPE in PRC 	<ul style="list-style-type: none"> • SAPE in BAN (TBD) 	<ul style="list-style-type: none"> • SAPE in VIE (TBD) • SAPE in PHI (TBD) • SAPE in BAN (TBD) 	<ul style="list-style-type: none"> • TBD sector/country • CAPEs will determine SAPEs
Special Evaluation Studies				
A. Thematic	<ul style="list-style-type: none"> • Capital Market Assistance • Effectiveness of ADB's Operations in Support of Capacity Development 	<ul style="list-style-type: none"> • Evaluation of Japan Funds (JFPR, JSF and JSP) • Achievements of ADB's Long-Term Strategic Framework • ADB's Operations in Support of Law and Justice Reform • Assistance to Water Supply Sector in Metro Manila • Evaluation of ADF XIII and IX • Replenishments Evaluation of Special Purpose 	<ul style="list-style-type: none"> • Evaluation of ADB's Support for Regional Cooperation and Integration • ADB's Support for Public Financial Management and Public Sector Reform • Infrastructure Development and Trade in Greater Mekong Subregion • Evaluation of ADB Support to the Development of Monitoring and Evaluation Systems and Capabilities in 	<ul style="list-style-type: none"> • Results from ADB's Water Policy Implementation • Effectiveness of ADB Operations in Fragile States and Conflicted Areas • Effectiveness of ADB's Approach to Roads Development

Items	2006 (only those for completion in 2007)	2007	2008	2009
B. Policies and Procedures	<ul style="list-style-type: none"> • Effectiveness of TA Operations • Effectiveness of ADB's Approaches to Partnering and Harmonization • Effect of Rural Finance and Microfinance in ADB Operations on Rural Households and the Status of Women • Energy Policy • Indigenous Peoples 	Funds (Non-Japanese) <ul style="list-style-type: none"> • Effectiveness of ADB's Resident Missions • Effectiveness of Policy-Dialogue and Support for Policy Reforms^a 	DMCs <ul style="list-style-type: none"> • Infrastructure Development and Trade in Central Asia • Assessment of ADB's Skills Mix and Use of Consultants 	<ul style="list-style-type: none"> • Implementation of ADB's Governance and Anti-Corruption Policies • Effectiveness of ADB's Support for Decentralization • Evaluation of ADB's Accountability Mechanism
Evaluation Briefs/ Notes		Assessment of the Managing for Development Results Agenda		
Rigorous Impact Evaluations		Education BAN	Irrigation (Country TBD)	Poverty (Country TBD)
Real-Time Evaluations	Assessment of Project Performance Report System	Assessment of Design and Monitoring Framework (DMF) Quality Effectiveness of Project Operations Quality Control/ Systems Processes	Assessment of DMF Quality Assessment of the Innovation and Efficiency Initiative	Assessment of DMF Quality
Public Sector Project Performance Evaluation Reports (PPERs)		Purposeful sample of 10	Purposeful sample of 10	Purposeful sample of 10

Items	2006 (only those for completion in 2007)	2007	2008	2009
Private Sector Evaluations	Private Sector Operations	Funds	Public/Private Partnerships for Infrastructure	Developing an Enabling Environment for the Private Sector
		Purposeful sample of 3 PPERs	Purposeful sample of 3 PPERs	Purposeful sample of 3 PPERs
Technical Assistance Program Evaluation (TPER)		Discontinued from 2007—TA assessments included under special studies		
Project Completion Report (PCR) and Country Partnership Strategy Completion Report (CPR) Validation (new function from 2007)		60 PCRs, CPR for Maldives	60	60
Knowledge Products		<ul style="list-style-type: none"> • Evaluation Highlights: Compendium of Lessons • Report on Evaluation Findings for 40th Annual Meeting • Is ADB Becoming a Learning Organization? • Utilization of OED Findings Dissemination Activities (TBD) 	<ul style="list-style-type: none"> • Evaluation Highlights: Learning from Less Than Successful Projects • Dissemination Activities (TBD) 	<ul style="list-style-type: none"> • Evaluation Highlights: Compendium of Lessons • Influential Evaluations Dissemination Activities (TBD)
Document Commenting and Feeding Lessons Back		PPTAs/RRPs/CSPs/PSOD MRM Policy papers	PPTAs/RRPs/CSPs/PSOD MRM Policy papers	PPTAs/RRPs/CSPs/PSOD MRM Policy papers
Evaluation Capacity Development	Implementation of TA 4581-PRC: Developing a Results-Based Monitoring and Evaluation System for Key Projects		RETA on DMC Evaluation Capacity Building	

Items	2006 (only those for completion in 2007)	2007	2008	2009
Others		<ul style="list-style-type: none"> • ECG Activities • RETA for Selected Evaluation Studies for 2007 	<ul style="list-style-type: none"> • ECG Activities • RETA for Selected Evaluation Studies for 2008 	<ul style="list-style-type: none"> • ECG Activities • RETA for Selected Evaluation Studies for 2009

ADB = Asian Development Bank, ADF = Asian Development Fund, BAN = Bangladesh, BHU = Bhutan, CAPE = country assistance program evaluation, CAREC = Central Asian Regional Cooperation, CPR = country partnership strategy completion report, CPS = country partnership and strategy, CSP = country strategy and program, DMC = developing member country, DMF = design and monitoring framework, ECG = Evaluation Cooperation Group, ESW = economic and sector work, IND = India, JFPR = Japan Fund for Poverty Reduction, JSF = Japan Special Fund, JSP = Japan Scholarship Program, KAZ= Kazakhstan, KGZ= Kyrgyz Republic, MON= Mongolia, MRM = management review meeting, NEP = Nepal, OED = Operations Evaluation Department, PAK = Pakistan, PCR = project/program completion report, PHI = Philippines, PNG = Papua New Guinea, PPER = project/program performance evaluation report, PPTA = project preparatory technical assistance, PRC = People's Republic of China, PSOD = Private Sector Department, RETA = regional technical assistance, RRP = report and recommendation of the President, SAPE = sector assistance program evaluation, TA = technical assistance, TBD = to be determined, VIE = Viet Nam.

Note: Items highlighted in bold are 2007 deliverables.

^a Covering ADB operations under program loan, sector development program, sector/project loan and single tranche modalities plus related TA and ESW.

PROJECT AND PROGRAM PERFORMANCE IN ADB

Table A2.1: Project Performance by Sector

Sector	Rated Projects (number)				Proportion of Projects Rated Successful (%)			
	1970s	1980s	1990s	Total	1970s	1980s	1990s	Total
Agriculture and Natural Resources	66	108	68	242	35	44	47	42
Education	13	21	44	78	77	52	82	73
Energy	52	54	67	173	79	80	85	82
Finance	31	19	22	72	39	37	59	44
Health, Nutrition, and Social Protection	2	13	15	30	100	38	60	53
Industry and Trade	26	15	15	56	65	80	53	66
Law, Economic Management, and Public Policy			2	2				0
Multisector	16	37	66	119	50	68	68	66
Transport and Communications	49	48	91	188	84	75	89	84
Water Supply, Sanitation, and Waste Management	26	18	33	77	58	39	73	60
Total	281	333	423	1,037	60	58	72	64

Source: OED database.

Table A2.2: Project Performance by Sector and Subsector

Sector/Subsector	1970s		1980s		1990s		Total	
	Projects (No.)	Success Rate (%)	Projects (No.)	Success Rate (%)	Projects (No.)	Success Rate (%)	Projects (No.)	Success Rate (%)
Agriculture and Natural Resources								
Agriculture Production, agroprocessing and agrobusiness	14	28.6	29	31.0	12	50.0	55	34.5
Agriculture Sector Development	10	30.0	10	20.0	10	50.0	30	33.3
Environment and Biodiversity			4	50.0	8	37.5	12	41.7
Fishery	16	18.8	16	50.0	8	12.5	40	30.0
Forest	3	66.7	12	50.0	7	14.3	22	40.9
Irrigation and Drainage	15	66.7	28	60.7	14	64.3	57	63.2
Livestock	8	12.5	8	25.0	3	66.7	19	26.3
Water Resource Management			1	100.0	6	83.3	7	85.7
Subtotal	66	34.8	108	43.5	68	47.1	242	42.1
Education								
Basic Education			4	0.0	19	84.2	23	69.6
Education Systems	1	0.0	2	50.0	2	50.0	5	40.0
Nonformal Education			1	0.0	4	75.0	5	60.0
Senior Secondary Education					4	50.0	4	50.0
Technical, Vocational, Skill, and Training	7	85.7	11	63.6	8	100.0	26	80.8
Tertiary Education	5	80.0	3	100.0	7	85.7	15	86.7
Subtotal	13	76.9	21	52.4	44	81.8	78	73.1
Energy								
Conventional Energy Generation (other than hydropower)	10	90.0	17	88.2	14	92.9	41	90.2
Energy Sector Development and Reforms	4	75.0	6	33.3	16	81.3	26	69.2
Hydropower	11	72.7	4	100.0	8	87.5	23	82.6
Transmission and Distribution	27	77.8	27	81.5	29	82.8	83	80.7
Subtotal	52	78.8	54	79.6	67	85.1	173	81.5
Finance								
Banking Systems	31	38.7	17	35.3	12	41.7	60	38.3
Finance Sector Development and Reforms					2	100.0	2	100.0
Housing Finance			1	0.0	2	50.0	3	33.3
Microfinance			1	100.0	6	83.3	7	85.7
Subtotal	31	38.7	19	36.8	22	59.1	72	44.4
Health, Nutrition, and Social Protection								
Health Program					5	80.0	5	80.0
Health Systems	2	100.0	13	38.5	10	50.0	25	48.0
Subtotal	2	100.0	13	38.5	15	60.0	30	53.3
Industry and Trade								
Housing Construction	1	100.0	2	100.0			3	100.0
Industry	17	64.7	4	75.0	10	40.0	31	58.1
Small and Medium-Scale Enterprises	8	62.5	9	77.8	3	66.7	20	70.0
Trade					2	100.0	2	100.0
Subtotal	26	65.4	15	80.0	15	53.3	56	66.1
Law, Economic Management, and Public Policy								
Public Finance and Expenditure Management					1	0.0	1	0.0
Subnational Government and Administration					1	0.0	1	0.0
Subtotal					2	0.0	2	0.0
Multisector	16	50.0	37	67.6	66	68.2	119	65.5
Transport and Communications								
Aviation	4	100.0			7	57.1	11	72.7
Ports, Waterways, and Shipping	18	77.8	12	66.7	9	88.9	39	76.9
Railways	2	0.0	3	33.3	9	77.8	14	57.1
Roads and Highways	22	90.9	27	85.2	56	92.9	105	90.5
Telecommunications and Communication	3	100.0	6	66.7	10	100.0	19	89.5
Subtotal	49	83.7	48	75.0	91	89.0	188	84.0
Water Supply, Sanitation, and Waste Management								
Integrated					3	100.0	3	100.0
Waste Management	1	100.0	3	33.3	2	50.0	6	50.0
Water Supply and Sanitation	25	56.0	15	40.0	28	71.4	68	58.8
Subtotal	26	57.7	18	38.9	33	72.7	77	59.7
Total	281	60.1	333	58.0	423	72.1	1,037	64.3

Source: OED database.

Table A2.3: Project Performance by Country

Sector	Rated Projects (number)				Proportion of Projects Rated Successful (%)			
	1970s	1980s	1990s	Total	1970s	1980s	1990s	Total
Bangladesh	21	29	35	85	24	66	83	62
Bhutan		4	4	8		50	100	75
China, People's Rep. of		6	64	70		67	86	84
Graduate Economies	47	10		57	85	90		86
India		10	17	27		70	65	67
Indochina ^a	13	12	40	65	31	75	88	74
Indonesia	39	53	65	157	59	60	65	62
Malaysia	23	21	7	51	57	62	86	63
Maldives		4	3	7		75	100	86
Mongolia and CARs			24	24				83
Nepal	16	28	19	63	81	46	53	57
Pacific DMCs	20	27	25	72	55	41	56	50
Pakistan	25	52	30	107	56	60	57	58
Papua New Guinea	8	12	10	30	38	42	30	37
Philippines	33	29	34	96	52	38	53	48
Sri Lanka	12	22	24	58	42	55	67	57
Thailand	24	14	22	60	88	86	100	92
Total	281	333	423	1,037	60	58	72	64

CAR = central asian republic, DMC = developing member country, Rep. = republic.

^a Comprising Cambodia, Lao PDR, Myanmar and Viet Nam.

Source: OED database.

Table A2.4: Program Performance by Sector
(combined PCR and PPAR/PPER ratings)

Sector	Rated Programs (number)				Proportion (%)		
	HS/GS/S	PS	US	Total	HS/GS/S	PS	US
Agriculture and Natural Resources	9	23		32	28	72	0
Education	2			2	100	0	0
Energy		3		3	0	100	0
Finance	17	5	1	23	74	22	4
Health, Nutrition, and Social Protection	4	3		7	57	43	0
Industry and Trade	7	3	1	11	64	27	9
Law, Economic Management, and Public Policy	11	6	1	18	61	33	6
Multisector	2	1		3	67	33	0
Transport and Communications		2		2	0	100	0
Total	52	46	3	101	51	46	3

GS = generally successful, HS = highly successful, PCR = program completion report, PPAR = program performance audit report, PPER=program performance evaluation report, PS= partly successful, S = successful, US= unsuccessful.

Source: PCRs and PPARs/PPERs containing a rating and circulated as of 31 December 2006.

SUMMARY OF KEY FACTORS THAT CONTRIBUTE TO OR UNDERMINE PROJECT/PROGRAM SUCCESS

1. The factors that are favorable and unfavorable to achieving the desired outcomes were identified from lessons drawn from evaluated project and program lending using the strengths, weaknesses, opportunities, and threats (SWOT) approach. In achieving desired results, contributing attributes were identified as strengths, detracting attributes as weaknesses, favorable external conditions as opportunities, and unfavorable external conditions as threats.

2. The SWOT analysis indicates that success and/or failure of both project and program lending were largely influenced by quality of project and program design, level of ownership and commitment; degree of participation and/or consultation undertaken; adequacy of institutional capacity of the executing and implementing agencies to implement the project and/or program (or lack of it); and sufficiency of resources such as staff, time, and financial capital required to implement and review the project or program. SWOT summaries of factors contributing to and detracting from desired outcomes of project and program lending are shown in Tables A3.1 and A3.2, respectively.

Table A3.1: Summary of Factors Contributing to and Detracting from Project Outcomes

Factors Contributing to the Desired Result	Factors Detracting from the Desired Result
<p>Factors Internal to ADB</p> <p>Strengths</p> <ul style="list-style-type: none"> • Thorough and sound project formulation (e.g., formulation of the project based on the needs or demands of beneficiaries, rigorous sectoral analysis, introduction or strengthening of successful capacity-building interventions including training in ADB procedures and systems, flexibility to allow design changes during implementation, application of lessons from past experience, and provision for financial framework to sustain the project) • Use of a participatory approach and involvement of stakeholders and beneficiaries in all project phases • A sustained and systematic approach to institutional capacity development adopted • Appropriate lending modality (e.g., adoption of the sector lending approach provided flexibility during implementation and helped avoid many ad hoc adjustments and confusion that might arise from a rigid design) • Good performance of consultants; qualified consultants and contractors engaged in areas where considerable specialization and experience are required • Knowledge of the technical skill base of 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Inadequate/incorrect project formulation <ul style="list-style-type: none"> – unrealistic or overly optimistic demand projections for goods and services – no adaptation of project outputs to local conditions – unrealistic physical targets and implementation schedule based on resources and time required for various project activities, administrative procedures and coordination between government agencies – unsynchronized project activities and inadequate arrangements for coordination for complex projects where many executing agencies are involved with activities that are closely interrelated – nonpreparation of a detailed assessment of the EA's capacity to implement the project or unrealistic review of the EA's capabilities – lack of technical analysis/insufficient attention to technical design issues – nonprovision for the periodic monitoring of government interventions and the macroeconomic environment affecting production and marketing – failure to include private sector participation in cases where government support services are weak

Factors Contributing to the Desired Result		Factors Detracting from the Desired Result
	<p>the executing agency staff prior to implementing projects</p> <ul style="list-style-type: none"> • Continuity of ADB involvement • Closer and effective project supervision provided • Close coordination among funding agencies assisting the same institution/sector 	<ul style="list-style-type: none"> • Less flexibility in project design • Lack of specialized ADB staff input (e.g., resettlement specialist, capacity building specialist, shipping specialist, etc.) • Project supervision lacking continuity due to several changes in ADB staff • Insufficient annual review missions and less effective project monitoring at the resident mission level
Factors External to ADB	<p>Opportunities</p> <ul style="list-style-type: none"> • A strong sense of ownership by the government (including the executing agency/implementing agency) • Efficient decision making by government agencies, based on clear lines of authority and preparedness to make timely decisions • A strong sense of ownership by the beneficiaries fostered through extensive participation • Access to adequate financing to implement the project and for operation and maintenance • Satisfactory or adequate institutional capacity of the executing agency to implement the project • Low turnover of counterpart staff 	<p>Threats and Risks</p> <ul style="list-style-type: none"> • Non-availability/shortage of local funds • Wavering government commitment • Slow decision making on the part of the government that would result in significant delays • Less involvement of stakeholders and local government/authorities in the planning, design, monitoring, and maintenance of interventions • Weak project management (e.g., inexperienced staff coordinating a multicomponent project involving several executing agencies) • High counterpart staff turnover; poorly paid staff; and competing aid agencies, which provide various levels of incentives • Negative changes in the policy environment

ADB = Asian Development Bank, EA = executing agency.

Source: Summarized from lessons drawn from the Evaluation Information System.

Table A3.2: Summary of Factors Contributing to and Detracting from Program Outcomes

Factors Contributing to the Desired Result		Factors Detracting from the Desired Result
Factors Internal to ADB	<p>Strengths</p> <ul style="list-style-type: none"> • Reform outcomes consistent with and tailored to government reform agenda and priorities • Sufficient analysis and dialogue on sector and policy issues and policy alternatives understood by client decision makers • Reforms well targeted • Reforms having sufficient consensus among decision makers and stakeholders • Sufficient government and public awareness of reform intentions and implications 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Insufficient consideration of macroeconomic and wider sector policies • Reform outcomes inconsistent with government priorities • Poorly understood outcome arising from lack of counterfactual analysis • Policy alternatives not understood • Reform program too complex/ambitious • Reforms proceeded despite poor decision maker and stakeholder support and awareness • Reform outputs did not meet desired

	Factors Contributing to the Desired Result	Factors Detracting from the Desired Result
	<ul style="list-style-type: none"> • Program design and policy matrix coherent and implementable • Conditions focused, manageable and some acted upon prior to program startup • Implementing agency correctly selected and having sufficient capacity • Sufficient length of program period • Direct and indirect costs identified and met by the program or counterpart funding 	<p>outcomes</p> <ul style="list-style-type: none"> • Overly complex design and too many tranche release conditions specified in the policy matrix • Conditions back loaded to second and subsequent tranches • Implementing agencies not having the capacity to carry out reforms or new functions • Program period too short to allow for expected depth of reforms • Key direct and indirect costs not identified
Factors External to ADB	<p>Opportunities</p> <ul style="list-style-type: none"> • Stable global and regional markets • Stable country economic, social, and political context • Complementary macroeconomic and institutional reforms beyond the program boundary 	<p>Threats and Risks</p> <ul style="list-style-type: none"> • Negative changes in the broader market and policy environment • Complementary macroeconomic and institutional reforms do not occur • Changes in governments, policy swings, competing and conflicting interests that stall reforms, and wavering commitment

ADB=Asian Development Bank.

Source: ADB. 2007. *Policy Based Lending in ADB: Recent Trends and Good Practices from Evaluation*. Manila.

HOW DOES ADB ASSIST IN DEVELOPING CAPACITY IN PARTNER COUNTRIES?

1. Although the Asian Development Bank (ADB) has recently adopted a new project classification system with capacity development (CD) as a new thematic priority since 2005, this does not mean that ADB did not provide any CD support under its lending and nonlending assistance prior to 2005. In fact, prior to 2005, many advisory technical assistance (ADTA) operations generally had CD as their main objective. Many loan projects approved prior to 2005 also had CD as one of their components. But these were not classified as CD simply because of the lack of CD priority in the project classification system. However, considering 2005 alone—after the CD classification system had been applied—eight loans for \$688 million (13% of total ADB lending) and 64 technical assistance (TA) grants for \$38 million (19% of total ADB TA operations), including 43 ADTA grants for \$23 million (27% of total ADB ADTA) were classified as CD (Table A4.1). Thus, ADTA was the major source of CD funding.

Table A4.1: CD TA Projects Approved in 2005, by TA Type

TA Type	CD TA Projects Approved				Total TA Projects Approved				Share of CD TA Approved as % of Total TA Projects	
	No.	%	Amount (\$'000)	%	No.	%	Amount (\$'000)	%	% (No.)	% (Amount)
ADTA	43	67.2	23,348	61.7	152	50.8	85,850	43.4	28.3	27.2
RETA	15	23.4	10,133	26.8	79	26.4	68,866	34.8	19.0	14.7
PPTA	6	9.4	4,350	11.5	68	22.7	43,005	21.8	8.8	10.1
Total	64	100.0	37,831	100.0	299	100.0	197,721	100.0	21.4	19.1

ADTA = advisory technical assistance, CD = capacity development, No. = number, PPTA = project preparatory technical assistance, RETA = regional technical assistance, TA = technical assistance.

Source: ADB. 2007. *Capacity Development Thematic Report*. Manila.

2. The breakdown by sector (Table A4.2) shows that, of the 64 CD TA grants approved in 2005, the largest amount (32%) went to the law, economic management, and public policy sector, followed by multisector (25%), then agriculture and natural resources (11%). Other sectors each accounted for less than 10% of total CD TA grants—chiefly, transport and communications (9%), finance (8%), energy (7%), education (4%), and water supply and sanitation (4%). Similarly, the sector breakdown of the eight CD loans (\$688 million) approved in 2005 also shows that the largest amount (77%) was for the law, economic management, and public policy sector; followed by education (8%); water supply and sanitation (7%); and multisector (7%) (Table A4.3).

Table A4.2: CD TA Projects Approved in 2005, by Sector

Sector	CD TA Projects Approved				Total TA Projects Approved				Share of CD TA Approved as % of Total TA Projects	
	No.	%	Amount		No.	%	Amount		% (No.)	% (Amount)
			(\$'000)	%			(\$'000)	%		
Agriculture and Natural Resources	9	14.1	4,030	10.7	48	16.1	50,471	25.4	18.8	8.0
Education	4	6.3	1,370	3.6	14	4.7	11,755	5.9	28.6	11.7
Energy	4	6.3	2,625	6.9	25	8.4	15,070	7.6	16.0	17.4
Finance	7	10.9	3,078	8.1	28	9.4	13,178	6.6	25.0	23.4
Health, Nutrition, and Protection	0	0.0	0	0.0	12	4.0	5,985	3.0	0.0	0.0
Industry and Trade	1	1.6	400	1.1	6	2.0	3,100	1.6	16.7	12.9
Law, Economic Management, and Public Policy	22	34.4	12,210	32.3	70	23.4	36,279	18.3	31.4	33.7
Multisector	10	15.6	9,418	24.9	49	16.4	36,150	18.2	20.4	26.1
Transport and Communication	5	7.8	3,300	8.7	34	11.4	21,224	10.7	14.7	15.5
Water Supply and Sanitation	2	3.1	1,400	3.7	13	4.3	5,510	2.8	15.4	25.4
Total	64	100.0	37,831	100.0	299	100.0	198,722	100.0	21.4	19.0

CD = capacity development, No. = number, TA = technical assistance.

Source: ADB. 2007. *Capacity Development Thematic Report*. Manila.

Table A4.3: CD Loans Approved in 2005, by Sector

Sector	No.	%	Amount (\$million)	%
Agriculture and Natural Resources	0	0.0	0.0	0.0
Education	3	37.5	58.1	8.4
Energy	0	0.0	0.0	0.0
Finance	0	0.0	0.0	0.0
Health, Nutrition, and Protection	0	0.0	0.0	0.0
Industry and Trade	0	0.0	0.0	0.0
LEMPP	3	37.5	530.0	77.0
Multisector	1	12.5	50.0	7.3
Transport and Communication	0	0.0	0.0	0.0
Water Supply and Sanitation	1	12.5	50.0	7.3
Total	8	100.0	688.1	100.0

LEMPP = law, economic management, and public policy, No. = number.

Source: ADB. 2007. *Capacity Development Thematic Report*. Manila.

3. In terms of regional breakdown, of the 64 CD TA grants approved in 2005, more than a third of the amount (36%) was approved by the South Asia Regional Department prior to realignment (Table A4.4). This was followed by the then Mekong Regional Department (25%), the then East and Central Asia Regional Department (15%), the then Southeast Asia Regional Department (10%), regional (10%), and the Pacific Regional Department (5%). As for loans, since four of the eight CD loans approved in 2005 went to Indonesia, the then Southeast Asia Regional Department was found to have approved the highest number (50%) and the biggest amount of \$580 million (84%) of the total CD loans (Table A4.5). The remaining CD loans included two to Sri Lanka under the then South Asia Regional Department for \$70 million (10%), and one each to Uzbekistan under the then East and Central Asia Regional Department for \$30 million (4%) and to Samoa under the Pacific Regional Department for \$8 million (1%).

Table A4.4: CD TA Projects Approved in 2005, by Regional Department (Prior to Realignment)

Regional Department	CD TA Projects Approved				Total TA Projects Approved				% of Total TA Projects Approved	
	No.	%	Amount (\$'000)	%	No.	%	Amount (\$'000)	%	% (No.)	% (Amount)
ECRD	11	17.2	5,650	14.9	70	23.4	38,410	19.3	15.7	14.7
MKRD	12	18.8	9,323	24.6	66	22.1	64,286	32.3	18.2	14.5
PARD	4	6.3	1,853	4.9	26	8.7	15,015	7.6	15.4	12.3
SARD	23	35.9	13,495	35.7	83	27.8	47,874	24.1	27.7	28.2
SERD	4	6.3	3,700	9.8	14	4.7	15,450	7.8	28.6	23.9
Regional	10	15.6	3,810	10.1	40	13.4	17,687	8.9	25.0	21.5
Total	64	100.0	37,831	100.0	299	100.0	198,722	100.0	21.4	19.0

CD = capacity development, ECRD = East and Central Asia Department, MKRD = Mekong Department, No. = number, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department, TA = technical assistance.

Source: ADB. 2007. *Capacity Development Thematic Report*. Manila.

Table A4.5: CD Loans Approved in 2005, by Regional Department (Prior to Realignment)

Regional Department	No.	%	Amount (\$ million)	%
ECRD	1	12.5	30.0	4.4
MKRD	0	0.0	0.0	0.0
PARD	1	12.5	8.1	1.2
SARD	2	25.0	70.0	10.2
SERD	4	50.0	580.0	84.3
Total	8	100.0	688.1	100.0

ECRD = East and Central Asia Department, MKRD = Mekong Department, No. = number, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.

Source: ADB. 2007. *Capacity Development Thematic Report*. Manila.

SUCCESS DRIVERS AND DETERRENCE FACTORS AFFECTING CAPACITY DEVELOPMENT PERFORMANCE BY COUNTRY AND SECTOR

A. Cambodia

1. Factors Affecting CD Performance in Cambodia's Education Sector

1. The highly successful capacity development (CD) performance in Cambodia's basic education sector resulted from several factors. *Success drivers* were (i) appropriate mix of modalities, with a series of well-coordinated advisory technical assistance (ADTA) grants as well as project and program loans through the sectorwide approach (SWAP); (ii) well-sequenced assistance, with long-term continuity, allowing successive initiatives to build on the success achieved earlier; (iii) continuity of key consultants; (iv) involvement of the executing agency (EA) and other key stakeholders during design and implementation; (v) the EA's strong commitment and ownership to take the lead role in coordinating aid agencies under the SWAP; (vi) project management functions integrated into the EA's normal operations; and (vii) the Government's financial commitment to increase the recurrent budget allocated to basic education. There were also some *deterrence factors* acting against full achievement of CD outcomes: (i) existing low public salaries and lack an appropriate incentive system, which resulted in low retention of trained EA staff; and (ii) lack of diagnostic baseline assessment of CD constraints, particularly at the contextual level, so the risks related to the problems of low public sector salaries and too much autonomy of the Textbook Publishing Company were not addressed.

2. Factors Affecting CD Performance in Cambodia's Road Sector

2. The generally successful CD performance, though at the lower end, in Cambodia's road sector resulted from several factors. *Success drivers* included (i) long-term continuity and early entry, with the Asian Development Bank's (ADB) continued lead role; (ii) appropriate mix of modalities, consisting of loans as well as ADTA grants; (iii) acquisition of skills through on-the-job training, which was the right kind of training, as it was a continuous, learning-by-doing process; (iv) generally good consultants; (v) the EA's strong commitment and ownership; (vi) EA's close coordination with the Ministry of Economy and Finance (MEF) and private entities; and (vii) MEF's willingness to increase the road maintenance budget. There were also some *deterrence factors* acting against full achievement of CD outcomes: (i) existing low public salaries and lack of an appropriate incentive system; (ii) lack of baseline assessments at all CD levels; (iii) design drawbacks in not integrating project management unit (PMU) activities into normal EA operations, and in focusing on training rather than institutionalizing skills transfer; and (iv) lack of evaluability to measure and monitor CD (e.g., target indicators, baseline data, and monitoring system).

3. Factors Affecting CD Performance in Cambodia's Governance

3. The generally successful CD performance in Cambodia's governance resulted from several factors. *Success drivers* included (i) the EA's strong commitment and ownership, as the project was provided just when it was needed to strengthen the capacity of the newly elected commune councilors; (ii) high motivation of the trained persons, given the nature of their work at the grassroots level; (iii) selection of good consultants and flexibility of the terms of reference; (iv) delegation of supervision to ADB's Cambodia Resident Mission; (v) adequate involvement of other key stakeholders, including support mobilized from various donors; and (vi) continuity and appropriate mix of modalities, with follow-up assistance to build on achievements. *Deterrence factors* that caused delays in achieving some CD outcomes included (i) initial lack of effective

aid harmonization in this area until 2005; (ii) lack of baseline assessment at the organizational and network levels, so the risks related to the problem of fragmentation of institutions supporting commune councils were not addressed; (iii) the Government's weak absorptive capacity and reluctance to proceed quickly with the new institutional setup; and (iv) lack of long-term plan to train the newly elected councilors.

4. Summary of CD Performance in Cambodia's Audit

4. ADB's TA support for CD in audit was also found to be effective, especially at the *organizational level* for reasons given in para. 6. *CD outputs* (e.g., National Audit Authority established in 2002, and Audit Law drafted) resulted in *CD outcomes* (e.g., the Audit Law passed and implemented). At the *network level*, *CD outputs* (e.g., internal audit departments established and strengthened in some line ministries) led to *CD outcomes* (e.g., internal and external audit system institutionalized, as reflected in the operationalization of the audit functions with some line ministries and the National Audit Authority's ability to carry out external audit of some externally-assisted projects). Given the expanded functions of the National Audit Authority, sustainability prospects are likely, particularly with its relative high salary structure compared with other government agencies.

5. Summary of CD Performance in Cambodia's Procurement

5. ADB's two TA grants in support of CD in procurement were also found to be effective, especially at the *organizational level* for reasons given in para. 6. *CD outputs* included (i) Department of Public Procurement established, (ii) training in procurement functions provided to staff of the Department of Public Procurement, (iii) procurement regulations and procedures developed, and (iv) Procurement Law drafted, leading to *CD outcomes* (e.g., institutionalized public procurement system, as reflected in the operationalization of the Department of Public Procurement, and the passage and implementation of the Procurement Law). Sustainability prospects are likely, given the implementation of the procurement framework under the public financial management (PFM) reform program.

6. Factors Affecting CD Performance in Cambodia's PFM and Fiduciary Arrangements

6. The successful CD performance in Cambodia's PFM and fiduciary system was due to combined factors. *Success drivers* included (i) the EAs' strong demand and involvement during TA design and implementation in most cases; (ii) continuity of counterpart staff teams; (iii) high priority given by the Government's leadership; (iv) generally competent consultants; (v) cost-effective arrangement for MEF to place a local consultant on a permanent or full-time basis; (vi) strong aid coordination during TA design, with ADB focusing more on PFM reform, leaving other aspects to other key agencies; (vii) strong aid coordination and funding mobilization during implementation through the SWAP; (viii) good supervision by ADB; and (ix) long-term continuity of support. However, there were some *deterrence factors* causing delays in achieving full integration of the medium-term expenditure framework (MTEF) into the annual budget cycle: (i) inadequate design of the MTEF, (ii) lack of full integration with the Technical Assistance Cooperation Program management, and (iii) weak initial absorptive capacity of MEF.

B. Nepal

1. Factors Affecting CD Performance in Nepal's Education Sector

7. The generally successful CD performance in Nepal's basic education sector resulted from combined factors. *Success drivers* included (i) appropriate mix and sequencing of modalities, consisting of both project and program loans with attached ADTA grants; (ii) long-term continuity of support, allowing subsequent assistance to consolidate what have earlier been achieved; (iii) strong commitment and involvement of the EA and the National Center for Education Development during design and implementation; (iv) conducive regulations, which did not permit teachers to transfer; (v) integration of the project implementation unit into National Center for Education Development's regular system in more recent design; (vi) involvement of other donors through the SWAP during the design in more recent assistance; (vii) continued cooperation by other agencies during implementation, some of which cofinanced the CD components; (viii) generally qualified consultants; and (ix) increases in the Government's recurrent budget shares to primary and secondary education and external contributions to pooled funding support. *Deterrence factors* included (i) lack of baseline assessment, particularly at the contextual level, resulting in inability to address important CD constraints at the design stage, which adversely affected the utilization of trained staff;¹ (ii) weak design (e.g., inadequate design of effective mechanisms to monitor the use of training in classroom practices, and inadequate design of public-private partnerships policy); (iii) top-down process of CD design that did not address CD needs in school-based management; and (iv) long delays in recruiting consultants.

2. Factors Affecting CD Performance in Nepal's Road Sector

8. The mixed CD performance in Nepal's road sector resulted from combined factors. *Success drivers* included (i) appropriate mix of modalities, consisting of loans and ADTA grants in more recent ADB assistance; (ii) good involvement and ownership of the Department of Local Infrastructure and Agricultural Roads (and Department of Roads [DOR] for the more recent initiatives) during design and implementation; (iii) generally good consultants; and (iv) continued funding to the Road Board Nepal, which is responsible for road maintenance. *Deterrence factors*, which were mainly associated with earlier ADB assistance to DOR, were (i) lack of baseline assessments; (ii) lack of involvement and ownership by DOR during design and implementation; (iii) lack of security in many project areas; and (iv) remotely-located project implementation units (even in more recent assistance)—both physically and organizationally—which isolated CD activities from the DOR mainstream operations.

3. Factors Affecting CD Performance in Nepal's Governance

9. The evolving CD results in Nepal's governance resulted from combined factors. *Success drivers* were (i) strong commitment and ownership by the Ministry of General Administration—the EA—during implementation, and (ii) conducive enabling environment during implementation to improving governance (e.g., through increased pressure by civil society and exposure by media against corruption). *Deterrence factors* causing delays in achieving some CD outcomes included (i) supply-driven process, since the design did not fully involve the EA; (ii) inadequate baseline assessments at all levels (had it not been for the EA's commitment to civil service

¹ Including (i) frequent transfer system of government staff (except for teachers and statisticians) every 2 years; and (ii) low teacher motivation and high teacher absenteeism due to low public salary structure, overcrowded classrooms, and inadequate learning and teaching materials.

reform, it would have been more difficult to achieve the CD outcomes); and (iii) nonconductive environment (e.g., suspension of Parliament, and rural-based insurgencies). While Parliament has now reconvened and the insurgencies seem to have subsided, political instability may still delay the implementation of policy measures.

4. Factors Affecting CD Performance in Nepal's PFM

10. The ineffective CD performance in Nepal's PFM resulted from combined factors, particularly *deterrence factors*: (i) limited consultations with the EA, leading to lack of government demand and involvement during TA design; (ii) lack of government commitment and ownership during implementation; (iii) lack of baseline assessments at the contextual level, resulting in lack of a strategy to address the risks related to the problem of frequent staff transfers as per a civil service rule that adversely affected the retention of the trained staff; (iv) lack of baseline assessment at the organizational level, resulting in inability to diagnose CD deficiencies of the EA; (v) lack of strategic direction with realistic CD goals and objectives for the sector; (vi) lack of long-term continuity, with scattered assistance; (vii) lack of appropriate mix of modalities; and (viii) lack of evaluability to measure and monitor CD (e.g., target indicators, baseline data, and monitoring system).

C. Philippines

1. Factors Affecting CD Performance in the Philippines' Education Sector

11. The mixed CD performance (more successful in the ongoing assistance) in the Philippines' basic education sector resulted from combined factors. *Success drivers* included (i) adequate involvement of major stakeholders through the participatory approach used by consultants, (ii) the Government's long-term commitment to improving equitable access to quality education, (iii) strong commitment and ownership of the EA to implement decentralization of basic education, (iv) improvement in teachers salaries, and (v) adequate training needs assessment at the individual level conducted annually and designed to create support networks. *Deterrence factors* for the first project included (i) lack of baseline assessment of CD needs at the organizational level; (ii) underestimated funding requirements for the research component; (iii) the benefit monitoring and evaluation system being located in the PMU, which was not integrated into the Bureau of Secondary Education's normal operations; (iv) lack of strategic direction to provide long-term, continuous support to the whole basic education subsector; (v) lack of policy dialogue in formulating the existing subsector development framework; and (vi) insufficient government funding of postproject activities.

2. Factors Affecting CD Performance in the Philippines' Road Sector

12. The mixed CD performance (successful for the Department of Public Works and Highways [DPWH] and partly successful for the Department of Interior and Local Government [DILG]) in the Philippines' road sector resulted from combined factors. *Success drivers* included (i) appropriate mix of modalities, consisting of loans and associated ADTA grants for DPWH; (ii) ADB's long-term commitment to DPWH, and to road maintenance in particular; (iii) DPWH's good commitment and ownership during design and implementation; and (iv) generally good consultants. *Deterrence factors*, particularly for DILG, included (i) lack of baseline assessment at the contextual level, contributing to limited attention to the impact of political influences on road maintenance budgeting, and on the selection of project priorities and contractors; (ii) lack of baseline assessments at the organizational and network levels, with consequent DPWH reluctance to undertake recommended changes, especially in upgrading the capacity of the

road construction industry; (iii) ADB's insufficient emphasis on monitoring and evaluation during implementation; (iv) lack of evaluability to measure and monitor CD (e.g., target indicators, baseline data, and monitoring system); (v) inadequate financial resources to support DILG; and (vi) lack of long-term ADB continuity and appropriate mix of modalities.

3. Factors Affecting CD Performance in the Philippines' Governance

13. The ineffective CD performance in the Philippines' local governance resulted from combined factors. The achievement of some CD outputs can be explained by the following *success drivers*: (i) provision of training to the right staff (local government unit planning officers) from the local level, (ii) commitment and ownership of DILG during design and implementation, (iii) PMU functions integrated into DILG normal operations, (iv) recent effective coordination role played by the National Economic and Development Authority through the Joint Memorandum Circular, and (v) conducive environment through recent government decentralization efforts. *Deterrence factors* detracting from successful results included (i) lack of mechanism for closer cooperation among the four national government agencies; (ii) selection of EA guided by government protocol, rather than TA purposes; (iii) failure to identify national budget items to be devolved to local government units; (iv) unfavorable economic conditions; (v) inadequate TA budget to replicate the pilot-tested CD programs; (vi) lack of baseline assessment at the organizational level, resulting in an ineffective mechanism to check the consistency of manuals produced by the four national government agencies; (vii) lack of evaluability to measure and monitor CD (e.g., target indicators, baseline data, and monitoring system); (viii) delay in consultant mobilization; (ix) lack of baseline assessment at the network level, hence isolated local government units' CD programs by the four national government agencies; (x) fragmentation of national government agencies' local governance functions, (xi) fragmentation of ADB support provided on an adhoc basis, without long-term support for one national government agency; and (xii) lack of appropriate mix of modalities, as only scattered ADTA grants were provided.

4. Factors Affecting CD Performance in the Philippines' PFM

14. The effective and evolving CD results in the Philippines' PFM resulted from combined factors. *Success drivers* include (i) conducive environment to retaining staff due to high recognition of the civil service; (ii) adequate baseline assessments at the organizational level to improve both the value-added tax information system and the debt and risk management functions at the Bureau Internal Revenue and the Department of Finance (DOF), respectively; (iii) DOF commitment to coordinate the debt and risk management functions at the network level; and (iv) support mobilized from the World Bank to sustain the value-added tax information system. However, some *deterrence factors* are constraining achievement of CD outcomes at the sector level: (i) lack of DOF involvement in consultant selection, (ii) inadequate TA review by ADB, (iii) lack of long-term perspective and strategic direction with realistic CD goals and objectives for the sector, and (iv) lack of modalities mix of ADB support.

LIST OF EXISTING OED EVALUATION STUDIES USED

I. Country Assistance Program Evaluations

- ADB. 2002. *Country Assistance Program Evaluation for Mongolia*. Manila.
- ADB. 2003. *Country Assistance Program Evaluation for Bangladesh*. Manila.
- ADB. 2003. *Country Assistance Program Evaluation for Papua New Guinea*. Manila.
- ADB. 2003. *Country Assistance Program Evaluation for the Philippines*. Manila.
- ADB. 2004. *Country Assistance Program Evaluation for Cambodia*. Manila.
- ADB. 2004. *Country Assistance Program Evaluation for Nepal*. Manila.
- ADB. 2005. *Country Assistance Program Evaluation for Bhutan*. Manila.
- ADB. 2005. *Country Assistance Program Evaluation for Indonesia*. Manila.
- ADB. 2006. *Country Assistance Program Evaluation for Lao People's Democratic Republic*. Manila.
- ADB. 2007. *Country Assistance Program Evaluation for Pakistan*. Manila.
- ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China*. Manila.
- ADB. 2007. *Country Assistance Program Evaluation for Sri Lanka*. Manila.

II. Sector Assistance Program Evaluations and Impact Evaluations Studies

- ADB. 2003. *Impact Evaluation of Asian Development Bank Assistance to the Power Sector in Indonesia*. Manila.
- ADB. 2003. *Sector Assistance Program Evaluation of Asian Development Bank Assistance to Bangladesh Power Sector*. Manila.
- ADB. 2005. *Sector Assistance Program Evaluation of Asian Development Bank Assistance to Philippines Power Sector*. Manila.
- ADB. 2005. *Sector Assistance Program Evaluation for the Agriculture and Natural Resources Sector of the Lao Peoples' Democratic Republic*. Manila.
- ADB. 2005. *Sector Assistance Program Evaluation for the Social Sectors in Pakistan*. Manila.
- ADB. 2006. *Sector Assistance Program Evaluation for the Road Sector in Pakistan*. Manila.
- ADB. 2006. *Sector Assistance Program Evaluation for the Transport Sector in India*. Manila.
- ADB. 2007. *Sector Assistance Program Evaluation of Asian Development Bank Assistance for Roads and Railways in the People's Republic of China*. Manila.

III. Project/Program and Technical Assistance Performance Evaluation Reports

- ADB. 2002. *Technical Assistance Performance Audit Report on Institutional Strengthening and Policy Support to the Road Sector in Kazakhstan, Kyrgyz Republic, and Mongolia*. Manila.
- ADB. 2003. *Technical Assistance Performance Audit Report on Institutional Strengthening and Policy Support to the Power Sector in Bhutan*. Manila.
- ADB. 2003. *Technical Assistance Performance Audit Report on Selected Advisory Technical Assistance for Institutional Development and Capacity Building in the Water Supply and Sanitation Sector in the Lao People's Democratic Republic and Viet Nam*. Manila.
- ADB. 2003. *Program Performance Audit Report on the Public Sector Reform Program in the Federated States of Micronesia*. Manila.
- ADB. 2004. *Technical Assistance Performance Audit Report on Advisory Technical Assistance for Power Sector Institutional Strengthening in Viet Nam*. Manila.
- ADB. 2006. *Project Performance Evaluation Report on Indonesia: Capacity Building*

for Water Resources. Manila.

ADB. 2006. *Program Performance Evaluation Report on Indonesia: Social Protection Sector Development Program*. Manila.

ADB. 2006. *People's Republic of China: Technical Assistance Performance Audit Report for Technical Assistance Projects in Public Administration*. Manila.

ADB. 2006. *Technical Assistance Performance Evaluation Report on Capacity Building Support to Decentralization in Indonesia*. Manila.

IV. Special Evaluation Studies

ADB. 2004. *Special Evaluation Study on Capacity Development Assistance of the Asian Development Bank to the Lao People's Democratic Republic*. Manila.

ADB. 2005. *Special Evaluation Study on the Role of Project Implementation Units*. Manila.

ADB. 2006. *Special Evaluation Study on Lessons in Capacity Development: Sectoral Studies in Sri Lanka*. Manila.

ADB. 2007. *Special Evaluation Study on the Performance of Technical Assistance*. Manila.

**MANAGEMENT RESPONSE TO THE
2007 ANNUAL EVALUATION REVIEW: THE CHALLENGE OF CAPACITY BUILDING
AND
ACTING ON RECOMMENDATIONS AND LEARNING FROM LESSONS IN 2007:
INCREASING VALUE ADDED FROM OPERATIONS EVALUATION**

On 24 September 2007, the Director General, Operations Evaluation Department (OED), received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate OED's *2007 Annual Evaluation Review* (Review). The Review provides a helpful overview of OED's activities and the performance of the Asian Development Bank's (ADB) lending operations. We welcome the inclusion of capacity development as a theme of the Review. The findings of the Review confirm the importance of our ongoing initiatives to improve loan and technical assistance (TA) portfolio performance and integrate capacity building into country operations.¹ We note that the Review does not present any recommendations, but instead provides a few pointers for future directions in capacity building. We note these suggestions and look forward to further discussion with OED on the theme of capacity development, especially once the special evaluation study on this topic has been finalized.

2. We further appreciate OED's report on *Acting on Recommendations and Learning from Lessons in 2007: Increasing Value Added from Operations Evaluation*. We are pleased to note that the report is generally positive about ADB's performance in acting on the Development Effectiveness Committee's (DEC) and OED's recommendations. We would also like to note that recommendations from DEC and OED have played vital roles in ADB's learning and change management process.

II. Specific Comments on the "2007 Annual Evaluation Review"

3. **Performance of ADB's Lending Operations.** We are encouraged to note the Review findings that (i) the success rate for loan projects has significantly improved since the mid-1980s, and (ii) the success rate of program loans has markedly improved to approach that of project loans. As indicated in the Review, this reflects the positive effect of initiatives aimed at strengthening project quality and stronger institutions and better policies at developing member countries (DMCs), among others.

4. We agree with the Review's finding on the common success and deterrence factors for project and program loans, which is consistent with that of a number of other analyses, such as the Economic and Research Department's Economic Analysis Retrospective.² We also note that we are undertaking various measures to maintain these improvements for the future.

5. **Capacity Building.** We agree in general with the Review suggestions on capacity building. On OED's suggestion to pilot alternative approaches in capacity

¹ These include ADB. 2005. *The Action Plan to Improve Loan and TA Portfolio Performance in Response to the 2004 Annual Report of the Operation Evaluation Department*. Manila; and ADB. 2007. *Integrating Capacity Development into Country Programs and Operations Medium-Term Framework and Action Plan*. Manila.

² ADB. 2006. *Economic Analysis Retrospective 2005: Strengthening Quality-at-Entry of ADB Operations*. Manila.

building, we note that many initiatives have been undertaken to pilot innovative approaches in capacity building in ADB. For example, there is a major initiative underway in Pakistan that will apply the capacity development framework adopted in ADB's capacity framework and action plan comprehensively, across sectors, at provincial and local levels.

6. The Review also suggested that ADB incorporate capacity building strategies into country partnership strategies and ensure the recently approved Medium-term Framework and Action Plan for Capacity Development to be fully resourced. We note that these have resource implications that need to be considered as part of ADB's work program and budget preparation process.

III. Specific Comments on “Acting on Recommendations and Learning from Lessons in 2007: Increasing Value Added from Operations Evaluation”

7. As the report on *Action on Recommendations and Learning from Lessons in 2007* (Report) is essentially a compendium of recommendations from other OED reports, we will focus our comments on its general purpose and principal findings, rather than commenting on the individual recommendations cited.

8. **Overall Assessment.** We concur with the Report's positive assessment regarding the implementation status of actions recommended by OED and DEC in the 2006 Annual Report of the DEC and the 2005 Annual Report on Loan and Technical Assistance Portfolio Performance. We note that many of these recommended actions are already mainstreamed into ADB operations.

9. **Proposed OED's Evaluation Approach.** While acknowledging the great need to ensure significant value added on a consistent basis from operational evaluation, we support the proposed steps to achieve this in the Report by (i) sharpening evaluation principles and strategies, (ii) distinguishing recommendation typologies, and (iii) encouraging utilization-focused recommendations. We believe that OED's recommendations on operational matters should not only be specific and feasible but also be value added and substantive in terms of their impact on development outcomes. This will minimize the costs of complying with recommendations for ADB and the DMCs. We also encourage OED to continue to take a more consultative approach in developing recommendations to improve potential for implementation and result to desired improvements in ADB operations.

10. **Structure of the Report.** We note that the Report is a collection of numerous recommendations from various OED and DEC reports. Therefore, it is essentially duplicative in nature, as its recommendations are mostly extracted from other OED reports. Also, as those recommendations then become separated from their original context, this could cause some confusion as to their genesis and purpose, especially for readers not closely acquainted with the subjects at hand.

11. For greater clarity and focus, we suggest that, in the future, the Report concentrate on a small number of key recommendations and lessons selected from other OED reports. We also suggest that OED consider presenting such recommendations in a matrix format for easier identification, with content defined in a consistent and sufficiently detailed manner.

12. **Overlapping Nature of Recommendations.** We note that given widely differing nature of recommendations, there is overlap in their intention and consequently in their

follow-up. As such, we would suggest that the Report's recommendations be grouped in a logical manner, and that the relationships between the various individual recommendations be made clear. For additional clarity, it would also help to have a hierarchy for the recommendations, with clear priorities identified, and—potentially—with the scope for some of these individual recommendations to be subsumed into others.

13. **Recurrent Recommendations.** The recurring recommendations mentioned in paragraph 48 of the Report are under various stages of implementation. Also, many of these are too general or broad to consider them completed at any particular point in time. While the ongoing Long-term Strategic Framework Review can further address these, as suggested in the Report, it should also be clear that these are continuing activities. For example, on the recommendation to transform ADB's business processes to make them more effective and efficient, several measures to address it are being implemented as continuing activities under the Innovation and Efficiency Initiative.

14. **Methodology for Assessing Compliance with Recommendations.** The Report provides both qualitative and quantitative assessments of compliance with implementing recommendations (e.g., paragraph 20 of the Report). As there may be several reasons for differing status in terms of follow-up, it would be useful that the Report elaborates on the reasons for the varying compliance levels, instead of merely enumerating the status. Such factors could, for example, examine the resource implications of implementing recommendations, capacity constraints in executing agencies, or simply the changing context in which ADB does business.

15. **Assessment of OED's Actions.** The Report frequently cites/assesses actions taken by OED itself. To maintain objectivity, we suggest that self-assessment of OED actions not be included in this report.

16. **Tracking Action on the Recommendations.** We welcome the launch of the evaluation information system to track action on recommendations and OED's plan to translate its recommendations into operational actions. We fully recognize the importance of tracking the use of OED and DEC recommendations. However, to effectively translate its recommendations into operational actions, it is essential (i) for OED to make realistic and actionable recommendations and (ii) for concerned departments/offices to agree on how to operationalize suggested measures without creating another layer of procedural requirements. In some cases, it would be helpful to leave detailed plans to departments/offices concerned rather than imposing them from outside.

Development Effectiveness Committee

Chair's Summary of the Committee Discussions on 24 October 2007

I. 2007 ANNUAL EVALUATION REVIEW: THE CHALLENGE OF CAPACITY DEVELOPMENT

Sub-item. Acting on Recommendations and Learning from Lessons in 2007: Increasing Value Added from Operations Evaluation

1. The 2007 Annual Evaluation Review (AER) is a retrospective of activities and recent results of evaluations by OED. It has two volumes: the main report (the Report), and a report on the actions taken by Management on OED recommendations (Vol. 2). The theme chapter, which reports on ADB's operations to support Capacity Development (CD), identifies general success and deterrent factors, and offers several points for further improvements.
2. OED noted Management's reference to the Report's suggestion that ADB should incorporate capacity building strategies into country partnership strategies (CPS) and ensure that the recently approved Medium-term Framework and Action Plan for Capacity Development are fully resourced. Management noted that these have resource implications that need to be considered as a part of ADB's work program and budget preparation process, but OED is not aware of the extent to which this may or may not have happened.
3. Vol. 2 concludes that lessons are being learned and actions are being taken, and identifies ways to increase OED's value-addition to improve the quality of its recommendations. There is a tension between being specific enough while not being too prescriptive. The objective is to create the right balance through consultations between Management and OED.
4. Management emphasized that recommendations in the Report are mostly extracted from other OED reports, therefore separating recommendations from its original context. Management suggested that future AERs concentrate on a small number of key recommendations and lessons. OED explained that the AER was designed to give quantitative and qualitative assessments of actions taken on the totality of recommendation in OED reports. The Evaluation Information System takes stock of the recommendations based on the context for which they were made (database links the recommendations to the individual evaluation reports).
5. On Management's comments that the recurring recommendations mentioned in the Report are under various stages of implementation, OED mentioned that some recommendations may still recur as the need arises. OED found Management's suggestion for future AERs to elaborate reasons for varying level of compliance with actions taken to be useful.
6. DEC encouraged OED's continued knowledge dissemination efforts. DEC suggested that future AERs include a critical self-assessment by regional departments (RD) and OED, rather than employing the current input-output approach. DEC agreed with the importance of encouraging willingness to build capacity, and encouraged the RDs to adapt the innovative approaches to CD presented in the Report.

7. DEC mentioned the need to focus more on capacity building (including increasing country ownership) not only on project-cycle-related areas, but also on project sustainability. DEC noted how the Report found the advisory technical assistance (ADTA) operations of ADB to be ineffective, and suggested that Management improve on this, as ADTA could play a very important role in capacity building. DEC also agreed that future AERs should focus on major issues.

8. DEC referred to the Report's timing vis-à-vis the 2006 DEC Annual Report, and noted that it may be premature to conclude that satisfactory actions were taken on the recommendations of the DEC Annual Report. DEC also emphasized the importance of evaluating policies and strategies. DEC agreed with Management that OED's recommendations should be practical and implementable.

9. DEC pointed out that evaluation has two sides: the recommendations on the one hand, and transforming the recommendation into operation on the other. Increasing the value-addition of evaluation to the operations side was essential.

10. On Management's suggestion for OED to continue to take a more consultative approach in developing recommendations, DEC inquired on the extent of consultation that OED has been using, and how Management would like OED to improve its consultation process.

11. DEC noted Management's response on OED's plan to translate its recommendations into operational actions and suggested that OED remains balanced by acting independently on its evaluations but with a client-friendly approach.

12. DEC agreed with Management that in terms of recommendations, it would be helpful to leave detailed plans to departments/offices concerned rather than imposing them from outside. However, DEC cited the importance of ascertaining that recommendations are taken into account. DEC suggested that Management invite OED when designing project concepts.

13. The DEC Chair referred to para. 105 of the Report, and suggested that DEC wait for the completion of the special evaluation study on CD before it arrives at any conclusions.

14. The DEC Chair drew DEC's attention to the differing views of OED/DEC and Management on the 2006 AER where the problem of measuring governance was highlighted, and ADB was asked to undertake a vigorous analysis to test whether good governance is the key binding constraint for development in DMCs. Management had reservation to undertake a review, citing that OED and DEC's views on overweight on governance was contrary to the reference of the ADF donors. Given that the weight is still significantly lower than the 60% weight assigned in the World Bank's formula for performance-based allocation (PBA), DEC now has to take a position if Management should or should not undertake the analysis.

15. OED informed that useful information on the issue would be available in an upcoming evaluation of ADF, including PBA and the robustness of the estimates of governance and the measures used.

16. OED would consider Management's suggestion for a hierarchy of recommendations, including its comments on recurring recommendations, and will establish appropriate mechanisms. OED clarified that it participates in project processing by attending Management Review Meetings and providing feedbacks at the project design stage.

17. On the suggestion to complement the self-assessment with a more critical assessment, OED is finalizing an evaluation-users survey to obtain feedbacks from users. OED will work on improving future reports similar to Vol. 2, in coordination with the MDG Office. The current consultative approach is working well, but OED is open to suggestions to improve it even more.

18. The DEC Chair referred to Management's suggestion that "to maintain objectivity, ... self-assessment of OED actions not be included in the report." OED explained that it only takes stock of actions undertaken by Management on specific recommendations, and does not make any judgment call on what actions should or should not be undertaken. The information on those actions was provided by the departments concerned.

19. On the issue of governance, DEC viewed that ADB should undertake the analysis of the relationship between governance and development effectiveness with caution, but did not see any need to conduct a separate review of the PBA system which is going on under the ADF negotiations. One DEC member opined that a separate review should be at the discretion of Management, especially if a similar exercise is already planned for ADF negotiations.

20. Management (represented by the Managing Director General; Acting Director General, RSDD; and Principal Director, COSO) noted the improved extent of consultation being undertaken by OED. Management emphasized that the recommendations should be more practical, aside from being implementable. Management is already very weary of the number of recommendations that keep piling up. Management suggested for a hierarchy of recommendations, and would be able to consider any recommendation that is implementable.

21. Management welcomed the theme chapter on CD, and said that ADB will continue to do capacity building. A CD working group and medium-term framework and action plan had been established. Management added that the Bank is encouraging the willingness for CD, both in the country programs and in the HQ.

22. Management sought DEC's guidance on the governance issue by having a separate discussion on the issue.

23. In conclusion, the DEC considered the two reports and noted the contents. DEC noted that the report on CD would provide important information on CD, and broadly endorsed the findings. DEC noted Management's Response and saw merits on the substance of the response. DEC reiterated the need for more research and insight into the linkages between good governance and development effectiveness. DEC believed that good governance is extremely important for development effectiveness; DEC encouraged Management to reconsider its views and undertake the research analysis of the relationship between governance and development effectiveness.

ASHOK K. LAHIRI
Chair, Development Effectiveness Committee