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Integrating Capacity Development into Country Programs and Operations

Medium-Term Framework and Action Plan

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CDF	–	capacity development fund
CDWG	–	Capacity Development Working Group
CWRD	–	Central and West Asia Department
CPS	–	country partnership strategy
CSP	–	country strategy and program
DER	–	Department of External Relations
DMC	–	developing member country
JFPR	–	Japan Fund for Poverty Reduction
MDG	–	Millennium Development Goal
MTS	–	medium-term strategy
NGO	–	nongovernment organization
OECD-DAC	–	Organization for Economic Co-operation and Development- Development Assistance Committee
OED	–	Operations Evaluation Department
PRM	–	Pakistan Resident Mission
RETA	–	regional technical assistance
RSCG	–	Capacity Development and Governance Division
RSDD	–	Regional and Sustainable Development Department
SARD	–	South Asia Department
SERD	–	Southeast Asia Department
SPD	–	Strategy and Policy Department
SPRU	–	Strategic Planning and Results Unit
TA	–	technical assistance

NOTE

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

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EXECUTIVE SUMMARY

In 2004, the Asian Development Bank (ADB) adopted capacity development as a thematic priority. By doing so, ADB acknowledged that strengthened country capacity is not only a means to achieve public sector performance but a goal in its own right. A working group was established to develop an operational medium-term framework and budgeted action plan to enhance the effectiveness, efficiency, and sustainability of ADB-supported capacity development interventions. This report summarizes the findings and recommendations of the working group.

Despite massive investments in capacity development, constrained capacity remains one of the major obstacles to sustainable development in the Asia and Pacific region. The effectiveness of capacity development investments needs to be strengthened to avoid negative impacts on service delivery to the poor, the investment climate, and the effectiveness of development lending. This view is shared by ADB's developing member countries (DMCs), which have been increasingly vocal about the need for value addition beyond investments and the need for funding agencies to develop a good understanding of country capacities and change management processes.

Capacity development has received much attention in the global development discussion. The need for systematic learning by the international community is being addressed by various global capacity development networks, such as the Learning Network for Capacity Development, and it is supported by intensive applied research. A good practice paper on capacity development was approved by the Organization for Economic Co-operation and Development–Development Assistance Committee (OECD-DAC) steering committee in February 2006. The first chapter of this report summarizes the consensus that has been evolving in the development community that capacity development is primarily the responsibility of developing countries, with funding agencies playing a supportive role. The Paris Declaration on Aid Effectiveness, adopted in March 2005, calls for capacity development to be made an explicit development objective of country development strategies.

Recognizing the need for country ownership and leadership of capacity development processes has implications for the way external parties engage with DMCs. The second chapter of this report identifies key elements of successful capacity development approaches by external providers, based on international experience. At the country level, funding agencies need to be able to (i) develop an understanding with DMCs on capacity development concepts and objectives; (ii) emphasize country leadership, ownership, and systems orientation; (iii) support result-oriented and inclusive processes with accountability structures primarily aimed at domestic constituencies; and (iv) use country systems to the extent possible in ADB-supported operations. This is a demanding agenda and will require time, because it involves changes to organizational structure, business processes and procedures, and modalities at funding agency and country levels.

The third chapter analyzes ADB's present approach to strengthening capacity development and focuses on two areas: (i) ADB's country programs and operations and (ii) ADB's internal support systems for capacity development. A considerable number of projects were classified as capacity development in 2005, the first year projects were classified in this way, and country strategies and programs have increased their emphasis on capacity development. However, there is a need to (i) strengthen the capacity development focus in country development strategies as well as in ADB-supported sector and thematic strategies and road maps, (ii) improve the capacity development focus in ADB-supported programs and

projects, (iii) develop appropriate modalities for delivering capacity development assistance, (iv) develop effective mechanisms to engage civil society and the private sector in the delivery of capacity development support, and (v) strengthen country capacities as a basis for aligning funding agency assistance with country systems.

ADB's organizational effectiveness for achieving capacity development objectives will have to be strengthened by introducing an effective results-based management system for capacity development. The planning, implementation, and monitoring of capacity development approaches in regional departments needs to be strengthened. This will require effective human resource management (including more effective decentralization to resident missions), knowledge management, and operational support systems. A flexible approach is needed, with more emphasis on operational experimentation, learning by doing, demonstrating results, and progressive organizational and procedural adaptation.

There is unlikely to be a single concept of capacity development that can be applied to each country. This paper offers a framework which regional departments, in collaboration with their DMCs and in consultation with other funding agencies, can adapt to specific circumstances. The capacity development approach needs to be jointly agreed, used, and refined as the basis for identifying DMCs' capacity development needs and for formulating and monitoring responses.

Key features of a medium-term action plan for capacity development are presented, including a significant learning program. The action plan emphasizes (i) country ownership of demand-driven capacity development; (ii) improvement of existing country systems in ADB-priority sectors and themes; (iii) capacity-development-support modalities that are flexible, programmatic, and managed by results; (iv) wider use of all available sources for providing capacity development; and (v) continual knowledge refreshment from structured learning and information exchange. The action plan focuses on two outcomes: (i) institutionalizing a capacity development focus in country programs and operations, and (ii) establishing internal support systems for capacity development.

If ADB is to provide more effective capacity development support to DMCs, it must adjust its organizational structure, business processes, and procedures. The action plan is a sequenced work program that can be monitored. It will enable ADB to understand better the needs of its clients; strengthen country capacities in a demand-oriented, effective, and efficient manner; allow capacity development assistance to be appropriately scaled up through implementing customized capacity development solutions; and address the major financing gaps by improving opportunities for involving the private sector. It will provide opportunities for improved partnerships and stronger involvement of civil society organizations. Strengthened capacity at the country level is the key to sustainability of development investments and the longer-term goal of poverty reduction.

I. INTRODUCTION

A. The New International Consensus on Capacity Development

1. Capacity is widely understood to mean “the ability of people, organizations and society as a whole to manage their affairs successfully”¹ and is a key to overall development performance.² The process of capacity development itself, however, has proved to be one of the most intractable challenges for international assistance. Despite huge external investment over many decades (much of which under the name of “technical cooperation or assistance”), progress in enhancing capacities in developing countries has been disappointingly slow. Since 2000, when the United Nations Millennium Development Declaration and the Millennium Development Goals (MDGs) were adopted, the challenge of accelerating sustainable capacity development has taken on a new urgency. Global monitoring reports on MDG progress have consistently revealed that adequate country capacity is seen as ‘one of the critical missing factors in current efforts to meet the MDGs’.

B. Country Capacities and Capacity Investments in the Asia and Pacific Region

2. Constrained capacity clearly remains one of the major obstacles to sustainable development in the Asia and Pacific region, hampering service delivery to the poor, as well as impacting negatively on the investment climate and on the effectiveness of development lending. For an initial comparison of country capacities, this report draws on the findings of the government effectiveness indicator of the World Bank Governance Matters study.³ The study covers the period 1996 to 2004 and is based on perceptions. According to the 2004 data set, 24 out of the 35 developing member countries (DMCs) in which ADB has active operations fall into the two (out of five) lowest categories. However, there is great variability in a region that comprises emerging economies such as the People’s Republic of China and India on the one hand and post-conflict countries and former Soviet Republics on the other. Even within individual countries, organizational capacities vary between and within their sectors and regions. A comparison of the 1996 and 2004 data sets shows that capacities can be depleted or strengthened over time. Countries such as Mongolia and Sri Lanka were able to move to a higher category during the 8-year period, while countries such as the Philippines and Nepal suffered from capacity depletion.

3. Capacity development approaches need to be adapted to country circumstances. Weakly performing countries, for example, require greater selectivity in the use of capacity development instruments, a focus on the development of the state, and emphasis on more demand-driven approaches. These principles may not all apply—or may apply to a lesser degree—in a politically stable middle-income country. However, attention will need to be paid to pockets of low capacities in middle-income countries. In some countries, capacity depletion is a concern and will require attention. Specific sectors do have common capacity development characteristics that can enable benchmarking across countries.

4. Many DMCs have weak capacity despite massive investments in official development assistance. During 2000–2003, approximately \$21.6 billion was spent on technical cooperation

¹ Organization for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC). 2006. *The Challenge of Capacity Development: Working Towards Good Practice*. Paris (February): 3.

² A different definition is used by the European Centre for Development Policy Management (ECDPM). *Study on Capacity, Change and Performance*. Maastricht. 2005. “Capacity is the emergent combination of attributes, capabilities and relationships that enable a system to exist, adapt and perform.” The definition is based on systems thinking.

³ World Bank. 2005. *Governance Matters IV: Governance Indicators for 1996–2004*. Washington, DC.

commitments for Asia and the Pacific, of which approximately 3% (\$667 million) was invested by ADB through technical assistance (TA). This spending is widely used as an indicator for investments in capacity development, but it has been criticized for its narrow focus on human capacities and knowledge transfer, which is not consistent with the findings of the more recent capacity development debate. The indicator does not cover lending for capacity development, so it understates ADB's impact on existing capacities.

5. In 2005, ADB introduced a capacity development classification system for its operations, which allows lending operations to be categorized as capacity development. According to an initial analysis of 2005 operations, TA for capacity development amounted to \$38 million and made up about 20% of total TA investments. Capacity development lending was \$688 million, about 13% of total lending. Capacity development is therefore nothing new for ADB, which has built up considerable capacity development experience over time.

6. Given the persistent lack of capacity among DMCs in the region, there is a need to significantly increase the effectiveness of ADB's investments in this area and to leverage capacity development investments by the DMC governments themselves and by the international funding agency community. Private sector investments in capacity development are needed. All of this requires that ADB prove its credibility as a professional capacity development provider.

C. Capacity Development as a Recent Thematic Priority for ADB

7. The 2004 review of ADB's poverty reduction strategy⁴ concluded that, to achieve inclusive growth, DMCs needed to enhance their capacity to formulate and implement policies, reforms, and investments for poverty reduction. It suggested that "by elevating capacity development to a thematic priority, ADB will review its current definition of, and approaches to, capacity development to achieve improved and more demand-driven delivery of capacity development support to the DMCs. An ADB-wide capacity development working group will lead the exercise."⁴ These recommendations of the poverty reduction strategy review are being implemented as part of ADB's wider reform agenda.

8. An interdepartmental capacity development working group (CDWG) was established in April 2004 and the list of members is attached in Appendix 1. The CDWG was tasked with (i) developing a classification system for capacity development; and (ii) recommending a medium-term framework and budgeted action plan for improving the effectiveness, efficiency, and sustainability of ADB capacity development interventions, including proposals for updating related business processes.

D. Purpose and Structure of this Report

9. This report summarizes the CDWG's findings and recommendations. It proposes an operational medium-term framework and budgeted action plan for enhancing the client-orientation, effectiveness, efficiency, and sustainability of ADB-supported capacity development operations. It should be noted that, at this stage, it is not intended to provide detailed guidelines on specific implementation issues. An earlier draft of this report was circulated interdepartmentally in December 2005. Since then, it has been updated, comments have been incorporated, and the report has been substantially shortened. Management support is sought for the action plan proposed in chapter IV.

⁴ ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila.

10. This report draws on desk studies, CDWG deliberations, and focus group discussions with regional departments.⁵ Desk studies covered the contemporary capacity development literature and the approaches of other funding agencies as well as internal studies on ADB's performance. In the absence of systematic results-based capacity development management, the assessment of ADB's performance with regard to the achievement of capacity development objectives is somewhat anecdotal. Stakeholder perspectives were determined, based on findings from external consultations on related initiatives, such as the review of the implementation of the governance and anticorruption policies,⁶ and discussions on enhancing ADB support to middle-income countries and borrowers from ordinary capital resources.⁷ The report drew on a number of ADB-supported good practices (Boxes 1–3). The report benefited from other reform initiatives within ADB, such as those concerning ADB's reorganization,⁸ the technical assistance reform initiative, and the project performance management system initiative.⁹

11. Chapter II identifies what constitutes successful capacity development approaches by external providers, based on the consensus emerging from the contemporary development effectiveness debate and recent DMC demands. Chapter III describes the strengths and weaknesses of ADB's present approach to capacity development. Performance gaps in ADB's approach to capacity development are identified. In chapter IV a remedial medium-term and budgeted program to address these gaps is proposed.

II. PRINCIPLES GUIDING EFFECTIVE CAPACITY DEVELOPMENT

A. Recognizing the Need for Country Ownership and Leadership of capacity development Processes

12. **DMC Demands.** DMCs have asked funding agencies to contribute more effectively to country-led development through (i) value addition beyond the financing needs, (ii) capacity development of local bodies involved in service delivery, (iii) ownership rather than conditionality, (iv) addressing capacity development needs in the executing agency before starting the project, (v) transfer of cross-country experience, (vi) greater emphasis on project implementation and flexible adjustments of project design during implementation, (vii) improved country knowledge through increased delegation of authority to funding agency country offices and involvement of national staff, and (viii) reduced reliance on international consultants.¹⁰ These statements reflect a perception in developing countries that support has not always addressed the real issues or has otherwise been inappropriate. They also indicate that DMCs feel somewhat marginalized in the management of capacity development assistance. This is frequently exacerbated by funding agencies' insistence on using structures and processes for project implementation that are different from the DMCs' own.

⁵ In November 2004, eight focus group discussions were conducted. In total, about 100 staff members from headquarters and resident missions participated in these discussions.

⁶ ADB. 2006. *Improving Governance and Fighting Corruption. Implementing the Governance and Anticorruption Policies of the Asian Development Bank*. Manila.

⁷ ADB. 2005. *Building Partnerships with Middle Income Countries and Ordinary Capital Resources Borrowers. An Informal Discussion Paper for an Informal Board Seminar in January 2006*. Manila.

⁸ ADB. 2003. *Implementation of the Reorganization of the Asian Development Bank—A Review of Progress after One Year*. Manila; and ADB. 2004. *Final Report of the Independent Assessment Panel on the Effectiveness of the Reorganization of the Asian Development Bank*. Manila.

⁹ ADB. 2006. *Medium-Term Strategy II 2006–2008*. Manila.

¹⁰ The statements were made by DMC representatives during country consultations held in preparing the governance and anticorruption review and the middle income strategy.

13. **Country Ownership and Leadership.** These DMC demands are in line with the growing body of international capacity development assistance experience that has recently been consolidated by the Organization for Economic Co-operation and Development (OECD).¹¹ There is a need to identify capacity development objectives and targets in national poverty reduction and development strategies. Several countries in the region are taking their new leadership roles increasingly seriously. For example, the Indonesian Ministry of Home Affairs—in a highly consultative process—has prepared a National Framework for Capacity Building to Support Decentralization. The framework was endorsed by senior leaders in 2002 and has since then guided numerous capacity development interventions in Indonesia, including such ADB-funded interventions as the sustainable capacity building for decentralization loan.¹¹ Further examples include the sector-wide approaches that have been implemented in the education sectors of Bangladesh, Cambodia, and Mongolia led by their respective ministries of education, as well as the effective sector planning in the power sector in Bangladesh.

Box 1: Indonesia's National Framework for Capacity Building to Support Decentralization

The Indonesian Ministry of Home Affairs, supported by German development assistance (through Gesellschaft für Technische Zusammenarbeit [GTZ]) and the United States Agency for International Development, led an innovative process to coordinate support for local government capacity development related to decentralization legislation that came into effect in 2001. A complex consultation process involving the ministry, sector departments, other central government agencies, the associations of regional governments, selected regions, funding agencies, and civil society organizations led to the formulation of a National Framework for Capacity Building to Support Decentralization by a small team consisting of Ministry officials and officials of the planning department. The framework stipulates a number of policy principles, such as (i) targeting different levels of government and various types of stakeholders; (ii) focusing on demand-driven programs based on specific needs; (iii) integrating activities (i.e., combining training and skills development for individuals with institutional reforms and modification of the regulatory framework at central or local levels); (iv) focusing on horizontal exchanges and peer learning between local governments; and (v) involving such capacity development providers as training institutes, universities, management, and consultancy institutes to enable them to provide adequate services to regional governments. The framework was endorsed by the Minister of Home Affairs and the State Minister for National Development Planning in 2002 and has guided numerous capacity development interventions in Indonesia.

Source : www.gtzsfdm.or.id

14. **Responsibilities for Capacity Development.** Drawing on the lessons learned in the international capacity development debate, a consensus is now evolving between funding agencies and developing countries that capacity development is primarily the responsibility of developing countries, with funding agencies playing a supportive role. The Paris Declaration on Aid Effectiveness, adopted in March 2005, calls for capacity development to be made an explicit development objective of country development strategies.¹² So far, capacity objectives are often not systematically addressed in country strategies and guidance on targeting and sequencing countrywide capacity development interventions is not yet readily available in the region. Increasing attention is being paid by various donors and DMCs to strengthen DMC capacities so they can prepare and implement capacity-development-focused national poverty reduction and country development strategies. However, country development strategies may not be the right entry point for initial capacity development strategy discussions, since they are often fairly

¹¹ ADB. 2002. *Proposed Loan and Technical Assistance Grant Sustainable Capacity Building for Decentralization Project (Indonesia)*. Manila.

¹² OECD-DAC. 2005. *Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability*. Paris.

general and do not allow for the level of detail in results frameworks that would be required for an effective capacity development strategy. A bottom-up strategic process, by contrast, can focus on three interlinked areas: (i) sector capacities; (ii) crosscutting capacities, such as countrywide decentralization, financial management, procurement, and accountability capacities; and (iii) local government capacities. Such an approach, which should also take into account wider institutional constraints, probably allows country preferences to be expressed more easily. It may, therefore, provide a sounder foundation upon which to build a genuinely demand-driven capacity development strategy.

15. **Capacity Development Providers.** Capacity development support can be provided by a range of facilitators, both internal and external. Indeed, effective capacity development will usually depend on the successful integration of capacity development inputs from many sources, involving different types of organizations and groups working in a variety of roles. The challenge for funding agencies is to identify their own comparative advantages and then operate as one element of a country-led partnership. This requires a sound understanding of a funding agency's strengths and weaknesses, as well as of the existing capacity development provider infrastructure in a specific country, including public and private learning organizations, think tanks, and research institutes. Increasingly, extending support to existing capacity providers in the recipient country is an effective way for funding agencies to avoid problems resulting from staff attrition of funding agency-trained government personnel. With better access to knowledge through the Internet, knowledge networking becomes more important than knowledge transfer. At the same time, there is a need to establish more effective funding agency partnerships aligned around country systems.

16. **Use of Country Systems for Funding Agency Operations.** While external partners can and should act as catalysts of change, stimulate reform processes, and encourage innovation and learning, they should be careful not to undermine existing country systems. If these are weak, funding agencies should seek to strengthen them rather than trying to bypass them. Otherwise, local ownership of capacity development interventions is likely to be diminished, with the result that funding agency support ends up substituting for local capacity. The use of country systems by funding agencies is itself a contribution to strengthening developing countries' capacities. These systems include, but are not limited to, procedures for country strategic planning for poverty reduction, public financial management, accounting, auditing, procurement, results management, inclusive strategic management, and accountability systems. Funding agencies are sometimes reluctant to rely on country systems due to potential conflicts with delivery targets and time frames.

B. Key Elements of a Country-Led Capacity Development Process

17. **A Shared View of Capacity Development.** Establishing a shared view of capacity development is important to ensure an effective dialogue about capacity development assistance between the funding agency community and developing countries. This requires the joint conceptualization of capacity development dimensions and processes involved in capacity development. A starting point could be OECD's harmonized definition of capacity development as "the process whereby people, organizations, and society as a whole unleash, strengthen, create, adapt, and maintain capacity over time (footnote 1). This recognizes that capacity development is not just a public sector matter, but that it also concerns the private sector, nongovernment entities, and civil society. The OECD-DAC good practice paper distinguishes clearly between three dimensions: individual, organizational, and the enabling environment (footnote 1).

18. **Individual and Organizational Dimensions.** The organizational dimension is about improving and sustaining the performance of the organization that is the main entry point for a capacity development intervention. Organizational performance is all about results. Does the agency fulfill its mandate, whether for services, policy advice, or regulation, effectively and efficiently? If there is a gap between actual and desired performance, capacity development within the organization should aim to reduce that gap. Training is just one way of doing this, and it is often not the top priority. Also important is the quality of an organization's relationships with other organizations, e.g., its national development partners (such as local government bodies and nongovernment organizations) and its external aid partners. Relationships with customers, clients, or end-users are also critical. Various procedures for analyzing the performance of organizations can be found in academia and business schools, but the findings of agency organizational capacity assessments are often not widely available to those outside of the organization. Also, while looking at organizational capacities from a private sector perspective, there is a danger that the complex partnership requirements and public accountability involved in public service delivery will be overlooked.

**Box 2: Coordinated Organizational and Institutional Capacity Development:
Education Sector, Cambodia**

Since 2000, the Asian Development Bank (ADB) has adopted a coordinated approach to education reform in Cambodia. Extensive policy dialogue at the sector level has been complemented by a comprehensive institutional assessment in relation to financial and decentralization reform. This has allowed for coordinated institutional and organizational assessment at the sector level. A policy action matrix, formulated and approved by the Government, has ensured national ownership and realistic education organizational changes. A follow-up program loan in late 2001^a provided incentives for implementing agreed reforms.

Consistent with ADB's long-term commitment, a second-phase support program has been designed. Follow-up strategic analysis in 2003 and 2004 identified weak legislative and regulatory systems, as well as public financial accounting and audit systems as key constraints. A phased institutional and organization development plan has been implemented since 2005 through a combination of program and project lending and technical assistance. Well-planned cooperation between ADB governance and sector specialists has been a feature of both phases of assistance.

Source: ADB's Southeast Asia Department.

^a ADB. 2001. *Proposed Loans Education Sector Development Program (Cambodia)*. Manila.

19. **Enabling Environment, Institutional Capacities, and Political Economy.** A critical determinant of an organization's performance is its external institutional environment, which refers to the rules (formal and informal), practices, and customs that express the country's political, social, and economic culture. Capacity development interventions that fail to address needs for institutional and related policy reforms are unlikely to have much impact on organizational performance *per se*. For about a decade, funding agencies have been placing more emphasis on the analysis of institutions and their political economy settings (e.g., through public expenditure reviews, governance assessments, and drivers of change studies). The studies are widely available but often are limited to analyses of countrywide crosscutting capacities. Sector-specific approaches to analyzing the effectiveness of institutions seem less well developed. Understanding the country-specific decentralization context and its impacts on sector and local government agencies is of particular importance. In theory, decentralization is regarded as a capacity development advance because of its potential contribution to greater community-based organization and to grassroots organizations' involvement in the development

process. However, the substantial organizational adjustments involved can complicate existing development assistance operations and considerably slow project cycles. This can create an appearance of degraded capacity, particularly for public sector financial management.

20. Public Sector Performance and Results Orientation. For capacity development to be effective, targeted organizations need to be able to deliver their mandates more effectively in a sustainable way. This means that target organizations need to be enabled to develop their performance benchmarks, results database, and performance monitoring and reporting systems. This is a huge exercise in itself but should always be the first essential step in facilitating capacity development for organizations. Performance and capacity are interrelated but are not synonymous. While performance may be one indicator of capacity, it also may be achieved by capacity substitution. The support arrangement, therefore, needs to be flexible, and sufficient provisions need to be made for regularly monitoring progress and for adjusting the support accordingly. Techniques such as problem trees and performance gap analyses can provide useful starting points for jointly identifying core issues associated with organizations' underperformance. Recent studies have emphasized the importance of incremental adaptations, which calls for providing space for learning, self-organization, and attention to setting up culturally appropriate feedback systems. There is a need to strike the right balance between a clear and strategic vision for capacity change while ensuring sufficient latitude for actors to learn and grow. Indicators that provide more detail on progress with regard to organizational and institutional capacities, as well as in relation to such important process variables as leadership, ownership, and inclusiveness, need to be developed. Indicators should also be flexible to enable monitoring of iterative approaches.

Box 3: Results-Oriented Approach: Power Sector, Bangladesh

Key features of Asian Development Bank (ADB) support to Bangladesh's power sector have included: (i) assisting with institutional arrangements for public–private partnerships, (ii) clearly defining sector and organizational performance objectives, (iii) supporting a phased power sector capacity development plan, and (iv) assisting with clear legislative and regulatory reforms. This has involved careful dialogue with the Government and other stakeholders to secure national leadership, commitment to reforms, and Cabinet approval.

An important feature has been extensive stakeholder consultation in analyzing future power demands and transparent consultation and information on cost and tariff implications. Independently appointed electricity board members with fully delegated authority have enabled improved accountability for electricity authority performance. Performance is monitored through a sector-wide performance database that is jointly financed by key aid partners. ADB lending of around \$950 million since 1989 has been complemented by a series of technical assistance projects focusing on institutional, regulatory, and sector performance, as well as on financing issues.

Source: ADB's South Asia Department.

21. Inclusiveness and Accountability. An inclusive approach is required that determines existing capacity levels, decides on which capacity shortfalls need to be tackled first, and then designs capacity development interventions accordingly. Accountability will require involving citizens or their representatives in strategic development, review, and budget processes. Accountability criteria for domestic constituencies are important as an incentive to performance, but, as these may not satisfy the legitimate interests of funding agencies and their home constituencies, compromises will have to be found.

22. Change Management, Process, and Systems Orientation. Capacity development is by nature a gradual, organic process that is difficult to predict and to plan for. How capacity

develops has often to do with the emergence of unanticipated opportunities and synergies. The importance of what can be termed “soft capacities” and such capacity enablers as motivation, importance of relationships, sense of commitment, and history, have increasingly been highlighted in the capacity development literature. Hence, there is a need for development partners to adjust their support intervention to these factors. The recent study on Capacity, Change, and Performance (footnote 2) has stressed the potential impact of systems thinking on capacity development conceptualization and practice. Systems thinking implies looking at capacity development interventions as part of a network of interacting systems. Interconnections among the components of a system, such as organizations within a network, are important and can give rise to valuable synergies.

C. Learning the Lessons for External Capacity Development Providers

23. Better results are obtained from capacity development interventions when capacity development providers act as effective change agents and facilitate change management processes in client organizations. There is evidence that successful capacity development is often more like client management than task management. It often reflects close personal relationships and trust between client agency and external facilitator staff (particularly staff based in the country on a long-term basis) built up over many years and based on mutual professional respect and trust. Both sides work closely together on the design of capacity development interventions and jointly tackle implementation issues on the spot as and when problems arise. This assumes (i) a long-term relationship and in-depth knowledge of the countries, sectors and themes concerned; (ii) knowledgeable members of staff who have acquired the confidence of senior officials in the DMCs; (iii) consistency of approach, with funding agencies committed to providing stable and continuing support for a long-term capacity development process; and (iv) willingness of funding agencies to continually adjust this assistance to meet changing circumstances. For these reasons, many funding agencies have decentralized responsibilities to their country offices.¹³

24. To be able to align operations at country level with good practice principles for capacity development, external facilitators need to (i) develop joint understandings with their clients on capacity development concepts and objectives; (ii) emphasize country leadership, ownership, and systems orientation; (iii) support results-oriented and inclusive change management processes with accountability structures primarily aimed at domestic constituencies; and (iv) use country systems to the extent possible rather than bypassing them with regard to managing funding agency-supported operations. These requirements pose major challenges for funding agency business processes and procedures, and many funding agencies have started adjusting to the demands of DMCs.

III. ADB'S PRESENT APPROACH TO CAPACITY DEVELOPMENT

A. Policy Underpinnings

25. Capacity development needs to be seen in the context of ADB's wider policy and strategic debate as reflected in the following key policy and strategy papers of the past decade.

- (i) **Report of the Task Force on Improving Project Quality.**¹⁴ The task force concluded that ADB needed to reformulate its strategy and policy for capacity

¹³ ADB. 2006. A Review of Community Driven Development and Related Approaches at the ADB (draft). Manila.

¹⁴ ADB. 1994. *Report of Task Force on Project Quality*. Manila.

building in DMCs and to develop a more comprehensive and appropriate capacity building program.

- (ii) **Board Information Paper on Capacity Building.** This paper¹⁵ advocated a country-specific approach and proposed that monitoring capacity building performance in DMCs should be an intrinsic part of ADB's assessment of its own performance. The paper recognized the contributions of civil society and the private sector to overall country capacity.
- (iii) **Sound Development Management Policy.**¹⁶ ADB's governance policy recognizes that good governance and capacity building are complementary in that "good governance implies the capacity to provide citizens with an acceptable level of public services, in an effective and efficient manner." Capacity building was seen as a means to an end (governance performance). The policy emphasized the importance of a strategic approach to capacity building, long-term support for it, and enabling DMC ownership.
- (iv) **Long-Term Strategic Framework.**¹⁷ The framework specifies four operating principles, which are all highly conducive to strengthening country capacities. These are to (a) ensure country ownership and leadership of the development agenda, (b) take a long-term approach to development assistance, (c) enhance strategic alliances and partnerships, and (d) measure development impact. Correspondingly, the first medium-term strategy (MTS)¹⁸ regarded capacity building as one of the critical challenges facing ADB.
- (v) **Medium-Term Strategy II.** The stated aim of MTS II, 2006–2008⁹ is to enhance ADB's relevance, responsiveness, and results orientation. This means that ADB will give greater attention to project implementation, portfolio performance, and country outcomes, as opposed to the previous emphasis on loan approval and lending volumes. MTS II identifies five strategic priorities¹⁹ to enhance ADB's relevance so it can meet key development challenges and identifies core operational sectors²⁰ where ADB should focus its operations. These priorities and sectors will determine resource allocations and the skills mix. MTS II emphasizes that ADB's priorities also need to reflect the international consensus on development assistance as agreed in the Paris Declaration on Aid Effectiveness. MTS II recognizes that a distinct approach needs to be developed for weakly performing states. Capacity development is critical to achieving all five strategic priorities identified in the MTS II. For instance, with regard to catalyzing investment, capacity development is central to establishing an investment climate.²¹ Strengthening inclusiveness is a key feature of capacity development approaches, as has been pointed out in para. 21.

¹⁵ ADB. 1994. *Bank Support for Capacity Building in Developing Member Countries*. Manila.

¹⁶ ADB. 1995. *Governance. Sound Development Management*. Manila.

¹⁷ ADB. 2001. *Long-Term Strategic Framework of the Asian Development Bank (2000–2015)*. Manila.

¹⁸ ADB. 2001. *Medium-Term Strategy (2001–2005)*. Manila.

¹⁹ These are (i) catalyzing investment, (ii) strengthening inclusiveness, (iii) promoting regional cooperation and integration, (iv) managing the environment, and (v) improving governance and containing corruption.

²⁰ These include the road transport, energy, urban infrastructure, rural infrastructure, education, and financial sectors.

²¹ World Economic Forum. 2006. *Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyze Private Investment*. Washington D.C. (January) points out that "The long-term solution to insufficient finance for development is to improve business environments, especially regulatory and legal frameworks, as well as the overall skill set and governance of actors across both the private and public sectors.

- (vi) **Review of the Implementation of Governance and Anticorruption Policies.** This report on ADB's governance and anticorruption policies⁶ has a number of important findings that are relevant to strengthening ADB's effectiveness for capacity development. It pointed out a lack of results-based management and clear prioritization in ADB's governance action plan.

26. It is evident from this list of policy and strategic documents that many important principles of a modern capacity development policy, such as emphasis on ownership, leadership, and inclusiveness, had been recognized in high-level strategic documents prior to approval of the 2004 poverty reduction review.⁴ Capacity development was, however, seen as a means for achieving improved public sector performance and was meant to be addressed through governance action plans. Specific capacity development objectives were not explicitly defined in governance action plans, and insufficient attention was paid to adopting results-based approaches to managing these governance action plans. The introduction of capacity development as a thematic priority in 2004 indicated that ADB recognized for the first time that capacity development is not only a means, but also an objective in its own right. This opens up opportunities for results-based management of capacity development. A similar approach has recently been suggested for the World Bank.²²

B. ADB-Supported Country Strategies and Operations

27. **Emphasis on Country Ownership and Leadership.** ADB has taken a number of significant steps to improve business processes and procedures in order to strengthen country-level support. The Resident Mission Policy²³ acknowledges the importance of local knowledge and capacities and calls for stronger client and partnership orientation. However, as of April 2006, only 20% of professional staff working in regional departments had been assigned to resident missions. National officers could also be engaged more effectively in capacity development activities. Country strategies and programs (CSPs), and their successors, country partnership strategies, are required to be results-based, with the development impact of ADB's program being measured on a regular basis.²⁴ A practice note on results-based CSPs was published in September 2005.²⁵ A recent report on country programs and business processes²⁶ aims to make ADB programming and operations processing more responsive, relevant, and results-oriented. This report indicates that (i) more rigorous sector analysis and integration of thematic assessments, and (ii) an improved analysis of country capacity to deliver on development programs are key features of the new Country Partnership Strategy (CPS) process. The guidelines on CPS will need to reflect the emerging international consensus on how to address capacity development in country development strategies and sector road maps.

28. **Capacity Development Focus of Country Development Plans.** ADB could be more systematically engaged in helping DMCs to identify priorities for organizational and institutional network capacity development in key sectors and themes. This would contribute to the preparation of realistic, capacity-development-focused national poverty reduction strategies and their results-based management and evaluation.

(...) While a large number of these types of capacity-building programs have been launched at Development Finance Institutions, study participants felt the current programmes are vastly insufficient and that current resources are often not effectively employed."

²² World Bank. 2005. *Capacity Building in Africa: An OED Evaluation*. Washington, DC.

²³ ADB. 2002. *Resident Mission Policy*. Manila.

²⁴ ADB. 2006. *Managing for Development Results in ADB: Revised Action Plan*. Manila. August.

²⁵ ADB. 2005. *Practice Note on Results-Based Country Strategies and Programs*. Manila.

²⁶ ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila.

29. **Capacity Development Focus of Country Programs.** ADB's business processes emphasize phased approaches to programming, with mandatory thematic and sector plans (road maps) for each major thematic area and sector in a DMC. While this makes good sense, there is general agreement that in the past sector road maps have been generally weak. Road maps are often not based on a good understanding of country capacities and capacity development priorities, and it is not always clear to what extent ADB's program contributes to the larger reform agenda within a sector or theme. The understanding of the political economy context is often weak. It also appears that the rationale for sector or thematic prioritization often does not reflect a discussion among country teams of the relative capacities of key crosscutting and sector agencies. Assessments of basic change management issues, such as leadership, ownership, and stakeholder buy-in, are frequently not reflected in CSPs. In view of the required greater reliance on country systems, there is a need for a more effective strategic prioritization of such critical country capacities as public financial management and results-based management and for a clearer integration of ADB sector support into DMC sector strategies. CPS review processes need to build on endogenous capacity development progress reviews at crosscutting thematic, sector, and local government levels.²⁷

30. **Modalities.** Both loans and TA projects have been used for capacity development. According to an analysis conducted as part of the governance review,⁶ about 20% of governance TA projects were focused on capacity development. Of 30 transport projects reviewed, 59% included institutional reforms and organizational development and 17% also had TA attached. Half of the projects delivered through sector lending included organizational development objectives and 24% addressed institutional development objectives. Both organizational and institutional development objectives featured in policy matrixes of sector development and program loans. About a third of these were supported by TA grants and another third by TA loans. The review also found that ADB modalities are insufficient to address institutional reforms and that there is a need to "create an effective, low transaction cost, lightly administered TA modality that will enable long-term (7-10 years), flexible, process oriented institutional reforms and capacity development of a sector or subsector". To summarize, ADB has not yet fully exploited the potential for leveraging linkages between loans and TA funds. A study conducted by ADB's South Asia Department found that investment and capacity development probably need to go together, because it is difficult to build capacity in an investment vacuum.²⁸ Access to modalities that allow for pilot-testing of new approaches and provide long-term financing has also been limited. A mixed level of commitment to, and ownership of, advisory TA within government is also reported.

31. **Inclusiveness.** By and large, insufficient time and resources have been made available to allow an effective partnership approach to designing and implementing capacity development programs jointly with civil society and the private sector. Limited expertise within ADB, consulting firms, and DMCs in facilitating inclusive approaches has also contributed to limited participation in ADB-supported projects and programs. However, a number of recent studies²⁹ have concluded that the involvement of civil society and community-based organizations in ADB operations has increased in recent years. The focus has been on organizational development of such grassroots civil society organizations as water users' associations and farmers' groups. There has been less emphasis on facilitating sustainable partnerships between civil society and government and on engaging civil society organizations in strengthening accountability systems. The Japan Fund for Poverty Reduction (JFPR) program has been the most important funding

²⁷ ADB. 2005. *The Report on Innovation and Efficiency Initiative. Change Proposals on Country Strategy and Program and Business Processes*. Manila.

²⁸ ADB. 2006. *Study of Capacity Development in South Asia*. Manila.

²⁹ ADB. 2006. *Involvement of Civil Society Organizations in ADB's Operations* (draft). Manila; and ADB. 2006. *A Review of Community Driven Development and Related Approaches at ADB*. Manila.

instrument to support civil society involvement in ADB operations, and opportunities may exist for using similar incentives in the design of ADB's core modalities. This would require a comprehensive review of the JFPR experience, including its cost-effectiveness.

32. **Results and Process Orientation.** ADB's OED studies highlight a lack of clarity about capacity development assistance objectives and results measurement in ADB projects. Baseline capacity assessments are often absent, and there is a tendency to set up parallel systems rather than to strengthen existing systems. There is an overemphasis on training as a main element of organizational capacity development. Institutional capacity development is often seen as outside the sphere of influence of the project and is neglected. Interventions are often not phased in a way that allows for the time and sequencing demands of capacity development measures. With regard to monitoring and evaluation systems, design and monitoring frameworks do not include capacity development targets and capacity development indicators are often not defined and monitored. 'Soft' capacity development indicators, such as indicators relating to ownership, leadership, and inclusiveness are normally not defined. However, the project performance management systems initiative has contributed to a better understanding of performance measurement for ADB projects and could be further refined with regard to capacity development.

C. ADB's Internal Support Systems for Capacity Development

33. **Capacity Development Objectives and Leadership for Capacity Development.** ADB has committed itself to implementing international commitments, such as the Paris Declaration, and senior members of Management have continuously and publicly highlighted the importance of capacity development. However, ADB-wide and regional department-wide capacity development objectives have not been operationalized and capacity development performance has not been measured against clearly defined capacity development targets.

34. **Classification and Reporting System.** Systematic monitoring of capacity development only began in 2005 with the introduction of a classification system. Including capacity development in the classification system has considerably improved the information available on ADB's support for capacity development and has made tracking of capacity development interventions possible. This will form the basis for an effective regional department and ADB-wide accountability mechanism and for in-depth analysis of capacity development approaches. The first thematic report on ADB's capacity development program will be prepared in 2006 and will involve extensive consultation.

35. **OED Investigations.** The department's work has contributed significantly to ADB's understanding of its capacity development program's strengths and weaknesses, but OED has faced difficulties in evaluating the impact of capacity development operations because of a lack of clearly identified capacity development concepts, principles, and targets.

36. **Staff Skills and Competencies.** A review of ADB's reorganization (footnote 8) stressed the importance of attaining a critical mass of thematic and sector specialists. The current skills database system is not well suited to identifying staff skills or their actual involvement in capacity development activities. Nevertheless, it can be expected that, based on the considerable sector experience ADB has obtained over the years, staff members have gained a good understanding of capacity development in those sectors where they have been active. Following the introduction of governance as a theme, there is also some evidence that capacity development skills have improved with regard to crosscutting institutional and political country contexts. However, experience in applying governance-related skills to the institutional environment of particular sectors is limited. Interdepartmental consultations revealed a general

concern that experience and expertise in organizational and network capacities was weak in some departments. The in-house availability of change management skills is largely unknown.

37. **Staff Incentives.** A number of OED and other capacity development studies,³⁰ as well as MTS II, have pointed out that ADB staff tended to focus on processing rather than implementation and that there have been few incentives for staff to supervise or monitor projects effectively. This reflects the focus of regional departments' implementation and monitoring systems on approval targets rather than on development impacts. This leads to insufficient attention being given to capacity development issues, with staff tending to act as project administrators rather than facilitators of change management processes. Frequent changes of project officers in ADB have made it difficult to support long-term change management processes and to establish trust with stakeholders at country level. In short, organizational incentives and reward systems are not fully aligned with ADB's strategic capacity development objectives. This works against efforts to strengthen staff skills and competencies for achieving capacity development and other development objectives.

38. **Knowledge Management and Operational Support.** There is a need for ADB-wide capacity development coordination. In the short term, this could be addressed by the governance community of practice, which is already formally in charge of capacity building. In the medium term, a separate capacity development committee could be established. There is growing demand from some regional departments for knowledge exchange and operational support on capacity development in close cooperation with Asian Development Bank Institute. Following the introduction of capacity development as a new thematic priority, various awareness-raising initiatives have been undertaken by the Capacity Development and Governance Division (RSCG) in ADB's Regional and Sustainable Development Department, but there is a need for further capacity development awareness raising at country level. So far, knowledge exchange has taken place among members of CDWG, but there is demand for a more extensive and systematic joint learning process, based on existing and new pilot projects and involving DMCs. The 1995 Staff Guidelines on the Bank's Capacity Building Services to DMCs are obsolete, and quality-at-entry criteria for capacity development in CPSs and operations need to be developed. Capacity development knowledge management for both ADB and DMC agency staff needs to be improved and there needs to be better access to capacity development tools and good practice.

D. Lessons for ADB

39. As pointed out in chapter II, ADB needs to be able to align its operations at the country level with good practice principles for capacity development. This requires ADB to (i) develop a joint understanding with its clients on capacity development concepts and objectives; (ii) emphasize country leadership, ownership, and systems orientation; (iii) support results-oriented and inclusive change management processes with accountability structures primarily aimed at domestic constituencies; and (iv) use country systems to the extent possible rather than bypassing them.

40. This will require changes in ADB's present approach to capacity development. Emphasis will have to be placed on the country level, particularly as follows: (i) strengthen the capacity development focus in ADB-supported sector and thematic strategies and road maps; (ii) improve the capacity development focus in ADB-supported programs and projects; (iii) develop appropriate modalities for delivering capacity development assistance; (iv) develop effective mechanisms to engage civil society and the private sector in delivering capacity

³⁰ ADB. 2001. *Capacity Development—Bank's Experience and Strategies for the Future*. Manila.

development support; (v) strengthen country capacities as a basis for aligning funding agency assistance with country systems; and (vi) establish partnerships with other funding agencies, in particular the United Nations system and bilateral organizations.

41. The effectiveness with which ADB can achieve its capacity development objectives will have to be strengthened by introducing an effective results-based management system for capacity development. Initial steps have been taken with the introduction of a capacity development classification system in 2005. Further measures will be needed to strengthen the capability of regional departments with regard to planning, implementing, and monitoring capacity development approaches. This will require setting up effective human resource management (including more effective decentralization to resident missions), knowledge management, and operational support systems for capacity development.

IV. PROPOSED MEDIUM-TERM ACTION PLAN FOR INTEGRATING CAPACITY DEVELOPMENT INTO COUNTRY PROGRAMS AND OPERATIONS

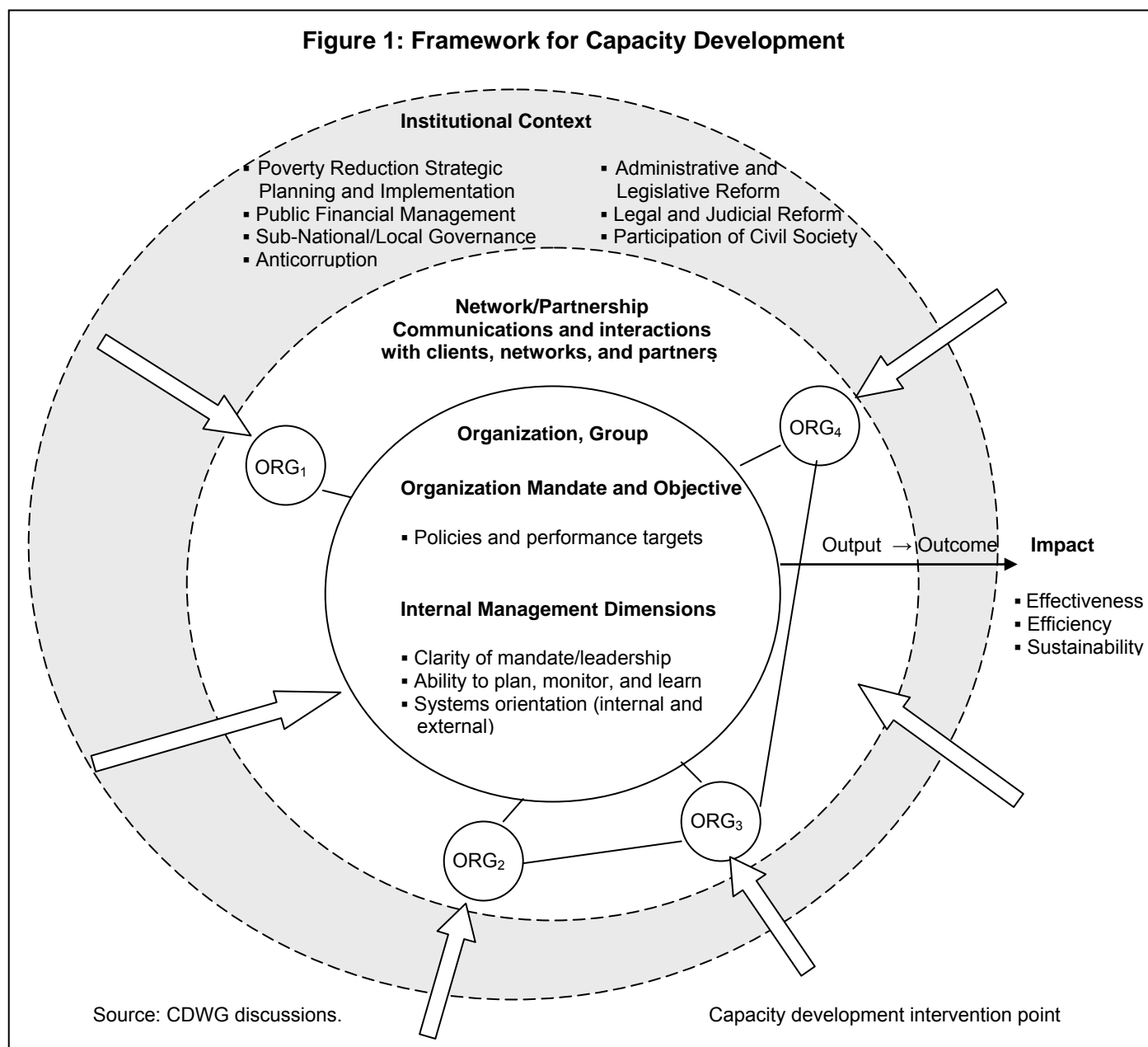
A. Objective

42. Chapters II and III identified the key elements of an effective capacity development assistance strategy based on analysis of the development community's past experiences in general and those of ADB and its DMCs in particular. A medium-term action plan is proposed in this chapter to change the way in which ADB actually deals with capacity development in its country programs and operations.

43. The first requirement for the action plan is a common understanding, by staff in ADB and DMC agencies, of what capacity development means and what capacity development assistance is about. Generic concepts, such as those presented in chapter II are often perceived as overly theoretical by practitioners and more work is needed to customize the concept to specific capacity development interventions (e.g., at country, sector, local government, or organizational levels). There is unlikely to be a single concept of capacity development that can be applied to each country. The concept presented here is, therefore, offered as a template that regional departments, in collaboration with their DMCs and in consultation with other funding agencies, can use to design their own concepts. It is important that the capacity development approach be jointly agreed, used, and refined as the basis for identifying DMCs' capacity development needs and for formulating and monitoring responses to them.

44. This capacity development framework has three main dimensions: (i) organizations, (ii) institutions, and (iii) inter-organization and group relations (encompassing client relations, networks, and partnerships). These constitute the subthemes of ADB's classification of capacity development. Figure 1 is a diagrammatic representation of these concepts and emphasizes that entry points for capacity development can be at organizational, institutional, and network and/or partnership levels. The first two dimensions are in line with the harmonized capacity development concept that emphasizes organizations and the enabling environment. The third dimension emphasizes systems, and thus the need for various government and nongovernment organizations and groups to act in partnership to achieve agreed objectives. It focuses on development processes in a system of particular organizations and groups in DMCs that are primarily responsible for achieving certain development objectives. These organizations and groups should own and lead efforts to improve their capabilities and performance. Such entities represent key entry points for ADB's capacity development interventions and can take place at

sector, crosscutting, or local government levels. Aggregation through bottom-up processes will allow for strategic prioritization at higher levels.



45. **Capacity Development and Governance.** Good governance and capacity development differ insofar as governance is a normative concept that identifies standards such as transparency and accountability, and measures country circumstances against these standards. In contrast, capacity development emphasizes achieving objectives identified by DMC organizations and other stakeholders. Capacity development is instrumental to achieving governance objectives, as it is to reaching environmental, gender, or sector objectives. Governance, in turn, supports capacity development, as progress with regard to achieving such governance objectives as improved accountability through financial management rules and regulations is likely to strengthen the capacities of an organization to achieve its objectives.

46. **Role of Public and Private Sectors and Other Organizations.** The model presupposes that public sector agencies will remain the key entry points for ADB's capacity development operations but that other key organizations in the private sector, nongovernment sector, and civil society will be given larger roles. This greater focus on stakeholders outside the public sector is consistent with ADB's general participatory development approach³¹ and the recommendations of two recent studies.²⁸ With regard to improving private sector involvement, ADB could more effectively engage in strengthening DMC agency capacity to facilitate or monitor private sector involvement in service delivery, rather than providing the service directly. ADB should also more effectively engage with private capacity development providers in its DMCs.

B. Key Features of the Capacity Development Medium-Term Action Plan

47. The objective of the action plan is to strengthen ADB's assistance for capacity development in DMCs so that it becomes more demand-driven, effective, and efficient. More effective ADB capacity development interventions with regard to DMC clients will contribute to better and more sustainable results for DMC organizations and groups. This will help achieve DMC intermediate outcomes, such as improved service delivery and better legal and regulatory enforcement in DMCs. The expected longer-term DMC impact is better quality and higher coverage of public services and, ultimately, poverty reduction. The action plan is intended to be a rolling program of realignment and effective results management of the new thematic priority will be critical. It is proposed that the continuing relevance of the action plan will be assessed through the thematic report on capacity development every two years. Progress against each of the broadly defined performance indicators set out in the results frameworks will be assessed, with particular emphasis placed on analyzing the learning programs described below.

48. While regional departments will prioritize their own capacity development programs, the ADB-wide action plan is meant to prioritize crosscutting capacity development measures in support of MTS II objectives, in particular, (i) catalyzing investment, (ii) strengthening inclusiveness, (iii) promoting regional cooperation and integration, (iv) managing the environment, and (v) improving governance and containing corruption. The action plan also prioritizes support to core operational sectors, in particular road transport, energy, urban infrastructure, rural infrastructure, education, and finance.

49. Chapter II has shown that there are no blueprints as to how development partners should engage with each other for capacity development purposes, only guidelines or principles concerning the kinds of attitudes, approaches, and behavior that experience shows are more likely to be effective. Although regional departments might accept the theoretical validity of the proposed capacity-development-related changes, some of them may be skeptical about their abilities to implement them in practice and the likely benefits of attempting to do so. There needs to be a flexible approach to integrating capacity development in ADB (i.e., an internal capacity development process), with an emphasis on pilot-testing, operational experimentation, learning by doing, demonstration of results, and progressive organizational and procedural adaptation. Individual regional departments will be expected to institutionalize approaches to capacity development at their own and/or their DMCs' pace and depending on their own and/or their DMCs commitment and absorptive capacity. The action plan aims at two key outcomes.

50. **Outcome 1. Institutionalizing a Capacity Development Focus in Country Programs and Operations.** This will comprise the following outputs: (i) increased dialogue with DMCs on country-specific concepts and principles as well as capacity development strategies and

³¹ ADB. 1996. *Mainstreaming Participatory Development Processes*. Manila.

progress; (ii) a strengthened regional-department-wide results-based management system for capacity development objectives, reflecting baselines and targets that can be monitored; (iii) more efficient and effective support for improved capacity development strategic focus in country development and/or poverty reduction strategies; (iv) a greater capacity development focus in CPSs, based on quality-at-entry criteria; (v) increased capacity development focus in capacity development operations in CPS priority sectors and themes based on quality-at-entry criteria; (vi) improved resident mission and headquarter staff skills and incentives for capacity development; and (vii) increased experience with piloting new modalities and processes to support capacity development. A results framework for outcome 1 is in Appendix 2.

51. Efforts to achieve an increased capacity development focus in CPSs will begin with country teams specifying (i) which organizations in the DMC are being targeted for facilitating capacity development (with perhaps the key executing agencies with which ADB deals heading the list); (ii) which institutional elements of the enabling environment of these organizations will be assisted as part of the CPS (e.g., civil service reform and legal frameworks); (iii) what are key stakeholders and what partnerships or systems will be supported; and (iv) how these will fit into sector road maps presented in the CPS. This implies operationalizing the conceptual framework developed in this report through the CPSs. ADB typically prepares between five and ten new CPSs each year. All of them should take due account of the above conceptual approach in close coordination with DMC stakeholders. Close cooperation with other funding agencies is essential for various reasons: (i) partnerships, mostly at sector and thematic level, can assist development partners to support nationally owned and led capacity development processes effectively; (ii) given its limited share in overall development spending in the region, ADB needs to pay close attention to leveraging its spending; and (iii) other development partners, especially bilateral aid partners and the United Nations system, have both the grant resources and at times more effective modalities for delivering capacity development. There are good examples of ADB developing an appropriate division of labor with other partners in a sector and theme which draw on the respective strengths of the partners.

52. A greater capacity development focus in operations could be implemented by using the new conceptual framework and principles on a pilot basis (selecting one or two key executing agencies per DMC) and in sectors in which ADB has a substantial presence, such as transport, energy, or education. A demand-driven approach should be followed in selecting the key executing agencies to ensure ownership. The lessons from the pilot initiative will gradually influence standard operational practice vis-à-vis a phased approach to capacity development, starting with facilitating stakeholder analysis, organizational, institutional, and gap analysis, and establishing performance benchmarks and databases. Project preparation will require a disciplined analysis of executing agency capacity and of the roles of other stakeholders. It will also require an analysis of soft capacity development factors, such as ownership, leadership, accountability structures to domestic constituencies, and inclusiveness.

53. **Outcome 2. Establishing Internal Support Systems for Capacity Development.** This will comprise the following outputs: (i) effective ADB-wide leadership exercised in support of the proposed capacity development approach; (ii) improved human resource management for capacity development; (iii) improved capacity development focus of transparency, accountability, and reporting mechanisms for ADB-wide delivery of results; (iv) increased demand-orientation and effectiveness of upstream technical capacity development support; (v) improved corporate and regional mechanisms for learning from capacity development experience; (vi) effective internal and external knowledge sharing and coordination mechanism for capacity development; and (vii) enhanced capacity development focus of independent evaluations. A results framework for outcome 2 is in Appendix 3.

54. Key initiatives would include the following.

- (i) A results monitoring and reporting format and system for capacity development will be applied to all capacity development operations. This will be the responsibility of RSCG in collaboration with ADB's Results Management Unit and the regional departments.
- (ii) A human resources initiative, which would include a competency framework for capacity development, recruitment of sector specialists with capacity development competencies and resident mission staff with change management expertise, and a capacity development training program. This will be the responsibility of the Budget, Personnel and Management Systems Department, regional departments and RSCG.
- (iii) An operational support system that would include development of quality-at-entry criteria, capacity development guidelines, sample terms of reference, and selected operational support. This will be the responsibility of RSCG.
- (iv) A knowledge management system with a capacity development website, resource center, a systematic approach to documenting and sharing good practice, a consultant database, and intra- and interorganizational networking. A knowledge exchange and learning program will be set up. It will address important areas of capacity development in development assistance where ADB needs to acquire more operational experience or to consolidate existing operational experience in a more systematic way. Overall coordination will be with RSCG, but the responsibilities for specific components of the learning program will have to be determined based on the details of each program. Specific knowledge exchange and learning programs will be identified for priority sectors and themes. Specific learning components for such a knowledge exchange program have been tentatively identified, based on the priorities emerging from the analysis in chapters II and III. Further details on these learning component areas are in Appendix 4. To ensure relevance and regional departments' interest, the suggested program builds on the substantive capacity development work that is already ongoing in regional departments and on pilot approaches that cannot currently be mainstreamed. The suggested components are (a) improving the capacity development focus in ADB-supported national poverty reduction processes and sector and thematic strategies and road maps, (b) improving the capacity development focus in ADB-supported programs and projects, (c) developing appropriate modalities for delivering capacity development assistance, (d) developing effective mechanisms to engage civil society and the private sector in delivering capacity development support, and (e) strengthening country capacities as a basis for aligning funding agency assistance with country systems.

C. Proposed Budget

55. It is expected that during 2007 and 2008 the amounts invested in regional departments' capacity development program in DMCs will remain about the same as in previous years (about 20% of total operations) while more emphasis will be placed on meeting quality-at-entry standards for capacity development. There is scope for further focusing capacity development activities within the TA and budget resources that are already built into regional departments' current work programs.

56. However, the development and pilot-testing of more demand-oriented approaches to capacity development will place additional pressure on staff resources and on travel and

consultant budgets within regional departments, in particular resident missions. These incremental expenses will have to be borne by ADB's internal administrative budget. ADB's planning directions for the 2007–2009 work program and budget framework³² state that specific attention should be given to ensuring appropriate implementation of the five poverty reduction strategy thematic priorities in line with the DMCs' specific needs, and it recommends that follow-up on capacity development issues should be guided by the findings of the action plan for integrating capacity development into country programs and operations, once approved. Specific budgets are subject to closer assessment and would be incorporated into the departments' annual proposals for internal administrative budget.

57. The incremental cost of applying the framework has been initially estimated at 4.0 years of professional and local staff time (valued at \$600,000) and \$180,000 in business travel and staff consultant budgets.³³ These are based on the 2007 requirements and will cover:

- (i) Awareness raising and training for sector staff and DMCs with a particular emphasis on DMCs that are in the process of preparing CPSs, countries in the Pacific, and sectors especially benefiting from strategies that emphasize capacity development.³⁴
- (ii) Economic, thematic, and sector work related to CPS preparation (emphasis on organizational capacity development and networks/partnerships): These are for staff consultant, headquarter sector staff time and additional resident mission national officers with organizational development and change management skills.
- (iii) Capacity development project management comprising staff time in the field to prepare, implement, and supervise capacity development projects.

59. An incremental budget of \$50,000 may be needed to further refine the ongoing inventory for staff skills with regard to capacity-development-specific skills in 2007. RSCG will attempt to finance these incremental recurrent costs through its existing budget allocation, leveraging the ongoing work of the Budget, Personnel, and Management Systems Department and the requirements of the new governance and anticorruption plan.³⁵

60. In addition, DMCs will be able to access regional technical assistance funds for capacity-development-related purposes. \$250,000 will be mobilized through the Regional and Sustainable Development Department's TA budget and additional funds are expected to be mobilized through future RSDD TA budgets and trust funds. The existing staff allocation for capacity development, staff consultants, and travel budgets within RSCG will be continued and will ensure provision of a sector focal point to monitor implementation of the action plan, ensure implementation of the program, as well as to provide operational support and internal and external knowledge management for capacity development.

61. In the medium term, provided there is demand from the DMCs the capacity development budget allocation in regional departments would be prioritized and increased to allow for an expansion of the capacity development program. Given the emphasis of MTS II, there should be

³² ADB. 2006. *Planning Directions for Preparing the Work Program and Budget Framework 2007–2009*. Manila.

³³ Incremental resource estimates were made based on initial estimates of average costs as the exact scope of capacity development is difficult to assess. Further, since many ADB's existing activities are for capacity development, the bulk of resource requirements for capacity development may come from the refocusing and reprioritizing of existing resources. The incremental resource needs from the framework adoption in 2007 will be met through firstly the redeployment and reallocation of existing budgets, including the use of the General Contingencies at year end.

³⁴ Requirements for staff awareness raising and training may decline over the medium term as the training needs become mainstreamed into the ADB's overall training program.

³⁵ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

a reallocation of funds as a result of a more focused use of TA resources and more strategic use of financing partnerships and co-financing. Successful implementation of the action plan will therefore depend on the degree to which capacity-development-based approaches will be adopted by regional departments and the extent to which existing budgets will be reallocated for capacity-development-based approaches.

V. CONCLUSIONS

62. The report has shown that there is a need for ADB to adjust its business processes and procedures to provide more effective support to DMCs in managing their capacity development processes. The action plan will provide an operational basis for a sequenced capacity development work program that is capable of being monitored. It will enable ADB to strengthen country capacities in a demand-oriented, effective, and efficient manner. Implementing the action plan will provide the necessary basis for scaling up development assistance and for better addressing the major financing gaps facing the region. It will also provide opportunities for better targeting of capacity development investments, improved partnerships, as well as stronger involvement of the private sector and civil society organizations. The action plan will help ADB to better understand the needs of its clients and to develop and implement customized solutions. Strengthened capacity at the country level is the key to sustainable development investments and to achieving the longer-term goal of poverty reduction.

Members of the Capacity Development Working Group

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RSCG/RSDD	Raza Ahmad	Capacity Development Specialist	6957	5974
Regional Departments				
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CWSS/CWRD	Rie Hiraoka	Senior Social Sectors Specialist	6811	5426
SEOC/SERD	Jacques Ferreira	Principal Regional Cooperation Specialist	6552	6138
PAOD/PARD	William Costello	Pacific Policy and Regional Cooperation Specialist	6129	6146
SAOD/SARD	Ziba Farhadian- Lorie	Principal Economist (Results Management)	6261	4980
SAOC/SARD	Alain Borghijs	Economist	6879	6713
PRM	Sandra Nicoll	Senior Governance Specialist	8	
PRM	Anne Sweetser	Project Implementation Specialist (People- Centered Reconstruction)	5513	
Other Departments				
COOD/COSO	Andrea Iffland	Principal Project Performance Management Specialist	6126	5446
EREA/ERD	David Dole	Senior Economist	6655	5865
OED1	Walter Kolkma	Evaluation Specialist	4105	4189
OED2	Tyrell Duncan	Principal Evaluation Specialist	4112	5230
RSDD/PU	Shiladitya Chatterjee	Principal Poverty Reduction Specialist	6708	5985
RSDD/PU	Yesim Elhan- Kayalar	Senior Poverty Reduction Specialist	6915	5471
SPRU/SPD	Per Oyvind Bastoe	Principal Results Management Specialist	5806	5034
SPMS/SPD	Robert Schoellhammer	Principal Planning and Policy Specialist	5910	5357
SPMS/SPD	Guido Geissler	Planning and Policy Specialist	6437	5693
SPPI/SPD	Manju Senapaty	Senior Planning and Policy Specialist	6557	6987
ADBI	Newin Sinsiri	Capacity Building Specialist	----	----

OUTCOME 1: Institutionalizing Capacity Development Focus in Country Programming and Operations

Output	Activities	Indicators	Responsibility
<p>1.1 Increased dialogue with developing member countries (DMCs) on country-specific capacity development (CD) concepts and principles.</p>	<p>Explain Asian Development Bank's (ADB's) approach to capacity development and discuss approach to country-specific capacity development policies and procedures adopted by DMCs. Assess DMC demand for an improved capacity development focus.</p> <p>Identify entry points and DMC focal points.</p> <p>Conduct awareness measures and training on capacity development for DMC focal points.</p> <p>Agree on country-specific capacity development concepts.</p>	<p>Policy dialogue conducted by senior management in all DMCs by 2008.</p> <p>Priority DMCs, entry points and focal points identified based on demand and ADB priorities.</p> <p>Three awareness-raising sessions prepared and conducted every year beginning in 2007.</p> <p>DMC-specific capacity development concepts identified.</p>	<p>Regional departments (RDs). With support from Capacity Development and Governance Division (RSCG), Asian Development Bank Institute, and Strategic Planning and Results Unit (SPRU) on a selective basis.</p>
<p>1.2 Strengthened RD-wide results-based management system for capacity development objectives.</p>	<p>Take stock of existing RD-specific results-based management system for capacity development.</p> <p>Identify strengths and weaknesses of RDs' capacity development program and conduct gap analysis based on quality-at-entry criteria.</p> <p>Identify RD-wide capacity development objectives and performance targets.</p>	<p>RD-specific results-based management system for capacity development analyzed by 2007.</p> <p>Performance analysis of 2005 and 2006 programs conducted by February 2007.</p> <p>Annual performance targets for capacity development identified on an annual basis beginning in 2007.</p>	<p>RDs. With support from RSCG and SPRU.</p>
<p>1.3 More efficient and effective support for improved capacity development strategic focus in country development and/or poverty reduction strategies.</p>	<p>Identify entry points based on DMC demand (crosscutting, sector, local government).</p> <p>Support identification of strengths and weaknesses with regard to critical sector and thematic capacities.</p> <p>Facilitate identification of capacity development priorities in national development strategies and sector and thematic road maps.</p>	<p>Assessments of DMC strategic priorities available for all ADB-priority sectors and themes by the time of ADB country strategy preparation.</p> <p>Support provided for inclusive capacity development baseline assessment and gap analysis on request.</p> <p>Preparation of capacity development action plans facilitated on request.</p>	<p>RDs. With support from RSCG and SPRU on a selective basis.</p>

Output	Activities	Indicators	Responsibility
<p>1.4 Increased capacity development focus of country partnership strategies (CPSs) based on quality-at-entry criteria.</p>	<p>Review existing country development programs for quality of capacity development assessments and degree to which capacity development priorities have been identified.</p> <p>Align ADB country programs with country capacity development priorities.</p> <p>Identify capacity development focal points in governments and identify capacity development providers in the private sector and civil society.</p> <p>Provide support to gap analysis, stakeholder analysis and participatory prioritization exercise for all priority sectors.</p> <p>Establish results indicators and monitoring systems for capacity development components in CPSs.</p>	<p>All CPSs prepared from 2007 onwards meet quality-at-entry standards with regard to their capacity development components, such as (i) linkage with country strategies at various levels; (ii) adequacy of gap analysis in terms of substantive assessment of capacity development dimensions through establishment of baseline indicators and processes (i.e., in terms of inclusiveness of relevant stakeholders); (iii) adequacy of capacity development strategy in terms of option identification, feasibility, organizational competence, and comparative advantage of actors and partnerships; (iv) adequacy of capacity development performance monitoring system (i.e., performance targeting of capacity development results indicators, inclusiveness of process).</p>	<p>RDs with selective support from RSCG and SPRU.</p>
<p>1.5 Increased capacity development focus of capacity development operations in priority sectors and themes based on quality-at-entry criteria.</p>	<p>Establish mandate and performance benchmarks for target organization.</p> <p>Conduct baseline capacity assessments and stakeholder analysis.</p> <p>Adopt inclusive approaches and identify roles of partners in design implementation and monitoring of operations.</p> <p>Strengthen accountability systems to domestic constituencies.</p> <p>Identify capacity development targets and routinely monitor progress.</p> <p>Take measures to maintain ownership and leadership of counterpart organizations in various aspects of design and implementation (e.g., contracting of consultants).</p> <p>Strengthen process and systems orientation.</p> <p>Avoid setting up parallel systems.</p> <p>Strengthen country systems that are critical to strengthen alignment of ADB operations with country systems (i.e., strategic planning for poverty reduction, procurement, financial management, results-based management).</p>	<p>Capacity development classified projects meet an increasing number of quality-at-entry criteria, such as (i) ownership and leadership approach, (ii) quality of baseline assessments and results orientation, (iii) inclusiveness and partnership approach, and (iv) process orientation and use of modalities.</p>	<p>RDs and sector focal points supported by RSCG.</p>

Output	Activities	Indicators	Responsibility
	<p>Increasingly engage recipient country service providers in capacity-development-related activities, such as organizational and institutional assessments, trainings, and endogenous monitoring of capacity development progress.</p> <p>Strengthen partnerships with other funding agencies, in particular the United Nations system and bilateral aid partners.</p>		
<p>1.6 Increased resident mission and headquarter staff skills and incentives for capacity development.</p>	<p>Work closely with the Resident Mission's Role in Operations Review to ensure that consideration will be given to the recommendations made in the framework.</p> <p>Place emphasis on recruitment of sector staff with capacity development skills and long-term DMC experience.</p> <p>Increase average length of field missions for capacity development projects.</p> <p>Reduce the average number of changes of project officers on capacity development projects.</p> <p>Ensure adequate hand over of projects to new project officers.</p> <p>Decrease emphasis on processing as compared with implementation and monitoring for capacity development projects.</p> <p>Monitor and reward capacity development performance of staff.</p> <p>Provide opportunities for staff to participate in capacity development learning and development and networking activities.</p>	<p>Adequate human resource provision in all resident missions of DMCs that emphasis capacity development in CPSs.</p> <p>Percentage of new recruits that meet the criteria.</p> <p>Average length of field missions on capacity development projects is sufficient to allow for adequate support to design, implementation, and monitoring.</p> <p>Monitor trend of length of project officer tenure on projects.</p> <p>More effective handover mechanisms to ensure personal and professional handover. Handover notes provide all relevant information, including soft information on political economy issues, etc.</p> <p>Average time spent on implementation and monitoring of capacity development projects increases as compared with processing time.</p> <p>Staff perceptions reflect emphasis placed by managers on capacity development performance. Performance and Development Plans highlight capacity development competencies and achievements. Capacity development performance has a positive impact on career development.</p> <p>Capacity development learning and development are increasingly included in Performance and Development Plans and participation in such programs increases by 10% from 2007 onwards.</p>	<p>RDs, Budget, Personnel, and Management Systems Department, RSCG</p>

Output	Activities	Indicators	Responsibility
1.7 Increased experience with piloting new modalities and processes to support CD.	<p>Strengthen linkages between grant, technical assistance and loan modalities.</p> <p>Pilot new modalities, such as capacity development funds.</p> <p>Engage in ADB-wide efforts to review modalities, i.e., in view of mainstreaming the Japan Fund for Poverty Reduction experience into ADB operations, analyzing sector-wide approaches and/or to review applicability of innovative World Bank modalities.</p>	<p>Percentage of sector-wide programs in capacity development portfolio increases.</p> <p>Two pilots have been initiated by 2008.</p> <p>Strong RD participation in Capacity Development Working Group on capacity development modalities to be established by 2008.</p>	RDs, Regional and Sustainable Development Department, Strategy and Policy Department

ADB = Asian Development Bank, capacity development = capacity development, CPS = country partnership strategy, DMC = developing member country, RD = regional department, RSCG = Capacity Development and Governance Division, SPRU = Strategic Planning and Results Unit.

Source: Capacity Development Working Group

OUTCOME 2: Establishing Internal Support Systems for Capacity Development

Output	Activities	Indicators	Responsibility
2.1 Effective Asian Development Bank (ADB)-wide leadership exercised in support of the proposed capacity development (CD) approach.	<p>Management oversees implementation of the action plan.</p> <p>Management provides regular progress reports to the Board through the biannual thematic report on capacity development</p> <p>Management makes full resourcing of action plan a priority element in preparing work program, budget frameworks, and annual budgets.</p> <p>High-level officials communicate ADB's capacity development approach in official speeches and include capacity development in policy dialogue with developing member countries (DMCs) and global partnerships.</p>	<p>Management review of the biennial thematic report on capacity development; endorsement of recommendations to adjust action plan as necessary.</p> <p>Capacity development medium-term action plan implementation is reflected as an objective of the 2010–2013 budget frameworks, as well as in the 2010 annual budget.</p> <p>Records of high-level missions reflect capacity development focus.</p>	Management, regional departments (RDs), Strategy and Policy Department (SPD), Capacity Development and Governance Division (RSCG), Department of External Relations (DER)
2.2 Improved human resource management for capacity development.	<p>Estimate staff resource and skill needs based on functional responsibilities.</p> <p>Define generic job descriptions for sector specialists with capacity development competencies and resident mission staff with change management competencies.</p> <p>Conduct staff skills inventory against the competency framework.</p> <p>Identify and act on identified recruitment and/or redeployment needs.</p> <p>Ensure effective performance management of capacity development staff, including career paths and regular offers of learning and development programs.</p> <p>Conduct and update learning programs on a regular basis.</p>	<p>Skill needs identified for 2007-2010 capacity development work programs.</p> <p>Functional CD competencies are incorporated into sector specific job descriptions by December 2007.</p> <p>Skills inventory for capacity development conducted in 2007.</p> <p>Capacity development specialists recruited or redeployed according to needs identified by departments.</p> <p>Staff perception that capacity development performance counts for performance evaluations and promotions.</p> <p>Regular participation of ADB staff in innovative learning programs contribute to evolving methodologies and tools and increased staff skills and competencies.</p>	Budget, Personnel and Management System Department. RDs, Regional and Sustainable Development Department
2.3 Improved capacity development focus of transparency, accountability and reporting mechanisms for ADB-wide delivery of results.	<p>Establish feedback mechanisms to operational departments based on quarterly review of project performance monitoring system data and initiate reclassification where necessary.</p> <p>Summarize capacity development classification data on an annual basis.</p>	<p>Improved consistency in capacity development outcome specification in project performance monitoring system, and project planning documents.</p> <p>Annual capacity development reports meet quality standards.</p>	RDs, Regional and Sustainable Development Department, DER

Output	Activities	Indicators	Responsibility
	<p>Provide thematic progress report on biennial basis to management.</p> <p>Contribute capacity development aspects to sector and thematic biennial reports.</p> <p>Provide access to information as required by the Public Communications Policy.</p> <p>Attend to specific information requests by major clients.</p>	<p>2010 report is prepared in line with guidelines on the preparation of thematic reports.</p> <p>Selected inputs are provided to reports on capacity development priority sectors.</p> <p>Framework and action plan, biannual thematic reports, and review reports are made publicly available on capacity development website.</p> <p>Documentation of responses.</p>	
<p>2.4 Increased demand-orientation and effectiveness of upstream technical capacity development support.</p>	<p>Identify support needs.</p> <p>Design appropriate operational support measures (i.e., staff guidelines, tools, direct support).</p> <p>Develop capacity development quality-at-entry criteria for CPSs, sector road maps, technical assistance, and lending instruments.</p> <p>Establish feedback mechanisms.</p>	<p>Biennial reports reflect progress with regard to implementation of capacity development quality-at-entry.</p> <p>Quality of tools is in line with international standards and meets demand.</p> <p>Staff guidelines that spell out quality-at-entry criteria for capacity-development-focused CPSs and projects are available by 2008.</p> <p>Positive feedback provided by RDs and evidence of effective mechanisms to address concerns.</p>	<p>RSCG, RDs</p>
<p>2.5 Improved corporate and regional mechanisms for learning from capacity development experience.</p>	<p>Conceptualize knowledge exchange program based on planned and ongoing pilots and learning needs.</p>	<p>Significant lessons learnt for the key components of the knowledge exchange program identified and proposals made to management on how to mainstream positive experiences for future implementation.</p>	<p>RSCG, focal points for components, Regional Departments.</p>
<p>2.6 Effective internal and external knowledge sharing and coordination mechanism for capacity development.</p>	<p>Conceptualize network.</p> <p>Share concept widely with staff and invite membership.</p> <p>Conduct regular knowledge sharing activities, such as brown bags.</p> <p>Identify knowledge management tools (i.e., web-based resource center, practice notes, conference participations).</p>	<p>Network established by March 2007 and membership updated on a regular basis.</p> <p>Satisfaction of members with network services.</p> <p>Active participation of members in network events.</p> <p>International thinking and DMC practice is influenced by ADB good practice and analytical work.</p>	<p>RSCG, SPD, DER (on external knowledge sharing only)</p>
<p>2.7 Enhanced capacity development focus of independent evaluations.</p>	<p>Include special evaluation studies in Operation Evaluation Department's (OED's) work program and increasingly base the studies on capacity development</p>	<p>2 OED studies a year focus on capacity development performance aspects.</p>	<p>OED</p>

Output	Activities	Indicators	Responsibility
	concepts and performance criteria.		

ADB = Asian Development Bank, CD = capacity development, CPS = country partnership strategy, DER = Department of External Relations, DMC = developing member country, OED = Operations Evaluation Department, RD = regional department, RSCG = Capacity Development and Governance Division, SPD = Strategy and Policy Department.

Source: Capacity Development Working Group

Preliminary Design of a Knowledge Exchange and Learning Program for Capacity Development

1. The knowledge exchange and learning program for capacity development consists of a series of collaborative processes and evaluations of the results of pilot projects and discussions leading to a synthesis of the significant lessons learned by ADB and its developing member countries (DMCs). The program will enable the regional departments to work with their clients on the joint development of more efficient and effective ways for Asian Development Bank (ADB) to provide support for capacity development in response to its clients' own priorities and preferences for particular systems. The emphasis will be on collaborative innovation, testing, monitoring, and evaluation, with both ADB mission leaders and their client agency counterparts being encouraged to try out new ideas in the form of pilot projects. The program will provide structure, process, and targeting for these initiatives to ensure systematic learning by both ADB and the DMCs. The program will also provide opportunities for joint learning with other partners.

2. Experience with the suggested components will be systematically assessed and discussed with DMC stakeholders and ADB staff. The findings from these consultations will form the basis for proposals for modifying (if required) capacity development approaches relating to the key learning areas discussed. Detailed results frameworks will have to be developed for each of the pilots included in the knowledge exchange and learning program. While the Capacity Development and Governance Division (RSCG) will provide overall management of the program, focal points will be identified for each of the program components. Some of the pilots may need replicating or extending before definitive conclusions can be drawn.

3. This appendix provides the main objective and some projects that could possibly be included. Further discussion will be needed with regional departments, DMCs, and development partners to validate this provisional list and to consider if new projects should be added. One or more pilot projects will be positioned in each component. Some of the proposed projects are ongoing, but most are only at the conceptual stage. The projects (existing and proposed) to be included will reflect ADB's sector focus in its operations, to be strengthened through greater sector selectivity under Medium-Term Strategy II, but also the assumption that ADB will continue to address certain capacity weaknesses at country level (crosscutting concerns). The components will be gradually phased in.

A. Improving the Capacity Development Focus in ADB-Supported National Poverty Reduction Strategies and Sector and Thematic Strategies and Road Maps

4. The main objective is to identify and explore ways of improving sector-specific capacity development programming, implementation, and knowledge management in DMCs and ADB that is focused on country systems owned by national and subnational agencies working in the sectors concerned. This will require the collaborative development of customized sector capacity assessment tools, country- and sector-specific capacity development concepts, sector capacity development strategies, results-based action plans, and capacity development components in sector road maps. Emphasis will be placed on DMC-managed inclusive processes and effective accountability mechanisms to domestic constituencies. Government and ADB internal country partnership strategy (CPS) preparation and review processes (country portfolio review missions and CPS mid-term reviews need to be analyzed and assisted to strengthen the capacity development focus.

5. The primary target group is comprised of country teams (including DMC representatives) that are in the early stages of preparing CPSs, sector focal points and communities of practices in priority sectors, and Operations Evaluation Department (OED) staff working on sector and

country program evaluations. So far, there is no systematic exchange on the preparation of sector road maps between these groups and there is need for cross-fertilization and consistency. The lead for supporting the preparation of results-based CPSs is with the Strategic Planning and Results Unit, which is preparing a results-based CPS guideline that could be used to disseminate some initial guidance on processes and quality-at-entry criteria, including those related to capacity development focus of sector road maps.

B. Improving the Capacity Development Focus in ADB-supported Programs and Projects

6. The main objective is to pilot-test capacity-development-based approaches in selected ADB-supported projects. Areas of interest are (i) instruments to identify and prioritize capacity development support needs in view of all three capacity development dimensions; (ii) means to strengthen ownership, leadership, and inclusiveness in the capacity development process; (iii) identification of sector specific capacity development features (i.e., sector-specific institutions, stakeholders arrangements); (iv) identification of methodologies for evaluating capacity development impacts and for developing capacity development indicators and monitoring processes at various levels; and (v) knowledge management within the DMC and ADB.

7. The main target groups are project teams (DMC officials, private sector and civil society representatives, ADB staff and consultants) working on capacity development interventions, sector and thematic focal points of ADB priority interventions, and evaluation officers involved in evaluations analyzing the capacity development focus of projects. There is a special need for developing sector-specific capacity development approaches, and sector focal points should take the lead. Support could be provided by RSCG, the Project Coordination and Procurement Division (in particular the Regional Technical Assistance (RETA) on results-focused project design and management,¹ and the nongovernment organization (NGO) Center. Human Resources Division has indicated readiness to support a learning and development program for water sector mission leaders and DMC capacity development focal points (training on the job).

C. Developing Appropriate Modalities for Delivering Capacity Development Assistance

8. Developing appropriate modalities and business processes for delivering effective capacity development assistance is a particularly promising component, in view of the widespread and continuing comment from reviewers of ADB's capacity development assistance that it suffers from an over-reliance on a limited range of modalities and instruments that are often not suitable for capacity development purposes. These do not provide sufficient flexibility to support the array of interventions in the capacity development system that may be required to pilot-test approaches or to span long enough periods.

9. Regional departments have started to experiment with capacity development funds (CDF), and these projects should be carefully monitored and analyzed under this program component. One of the projects, undertaken in partnership with the European Commission will be establishing a CDF to operate at central, provincial, and district levels in support of capacity development in the Indonesian basic education sector. This is a demand-driven approach using eligibility criteria for participation, including clear evidence of commitment to change as an incentive to drive systemic improvements. Another pilot, which has been intensively discussed within the South Asia Department and Capacity Development Working Group following

¹ ADB. 2005. *Technical Assistance for Results-Focused Project Design and Management*. Manila.

finalization of the study on capacity development in South Asia² will test a similar principle with a view to scaling it up—in stages—so as eventually to cover several South Asian countries. The key innovation that will be tested is that the use of CDF resources within any country will be at the discretion of the country itself, not ADB. Furthermore, top government and sector ministries will choose the kinds of capacity development inputs on which to spend CDF resources. ADB's role will be to advise on this and to assist the country to establish a capacity development strategy with sector capacity development road maps. The incentive for the DMC to use the CDF efficiently will be a linking of progress made by the country and/or sector in implementing capacity development programs with eligibility for related project investment loans.

10. As part of the modalities component, a study should be undertaken to review the experiences of ADB and other funding agencies and to recommend specific modalities to support a stronger capacity development focus. The study should include a review of existing experience, such as the Japan Fund for Poverty Reduction (JFPR) and innovative World Bank modalities. The review of the JFPR was proposed by the special evaluation study on civil society involvement³ in ADB operations, which found that capacity assessments and pilot-testing of new approaches to partnerships between community-based civil society organizations and local governments during project design stage is difficult. It recommended to pilot-test new approaches as a basis for further scaling up during the implementation stage. Unlike the World Bank with its Learning and Innovation Loan modality, ADB does not avail itself of a lending modality that allows for such pilot-testing during the implementation stage. The Indonesian Sustainable Capacity Building for Decentralization, which has adopted an innovative approach to strengthening capacities at the regional level, would also be worth a closer analysis.

11. The knowledge exchange and learning component should be closely coordinated with the ongoing OED study on the effectiveness of ADB's operations in support of capacity development and on the general effectiveness of TA operations⁴ as well as with the TA reform initiative led by the Strategy and Policy Department. The recommendations should be carefully analyzed by a working group and proposals should be developed for senior management.

D. Developing Effective Mechanisms to Engage Civil Society and the Private Sector in the Delivery of Capacity Development Support

12. The proposed approach calls for more efficient involvement of civil society organizations and the private sector in country operations. Civil society can act in various roles, such as (i) advocacy: upstream communication with decision makers (e.g., Government) with the objective of influencing policy and strategic decision making; (ii) mobilization: downstream communication with beneficiaries and local government, including information, education, communication, community mobilization and organization; (iii) monitoring: contracted by the project to monitor project outputs and short-term impacts; (iv) delivery: contracted by the project to perform such project-related tasks as project management, government staff training; and (v) information provision and sharing, such as workshop participation and general consultation (not contracted by the project). So far, civil society involvement in ADB operations was largely funded through JFPR and the civil society engagement was not balanced between the various roles. Civil society organizations in monitoring and advocacy have been very limited. Another important area to look into is approaches for Resident Missions to effectively interact with civil society.

² ADB. 2006. *Study of Capacity Development in South Asia*. Manila

³ ADB. 2006. *Special Evaluation Study Involvement of Civil Society Organizations in Asian Development Bank Operations*. Manila.

⁴ Memorandum on Special Evaluation Study on the Performance of Technical Assistance—2nd Position Paper from Tyrell Duncan, OED dated 29 May 2006.

13. The knowledge exchange and learning program component should build on two recent studies.²⁸ Further research should focus on JFPR projects and the small grant projects handled by the NGO Center. The pilot should also include planned or ongoing RETAs such as the small-scale RETA on support to civil society initiatives on governance⁵ and RETA on institutionalizing civil society participation to create local pro-poor budgets⁶. Based on a comprehensive review and consultations with NGOs, guidance should be provided to mission leaders and proposals on how to strengthen ADB's procedures for civil society involvement need to be developed. Ongoing work aimed at more effectively engaging the private sector will also have to be identified.

E. Strengthening Country Capacities as a Basis for Aligning Funding Agency Assistance with Country Systems

14. The objective is to support DMCs in strengthening specific country systems that are important to avoid that funding agencies will set up parallel systems. Important systems would comprise strategic planning for poverty reduction, results-based management, financial management, procurement, and consultant contracting and supervision. There is need to assess and perhaps strengthen such systems and to communicate to funding agencies that the systems meet quality criteria, such as Public Expenditure Financial Accountability criteria for financial management. Specific features of these pilots will be the use of existing organization structures, management systems, and processes upon which to build capacity improvement rather than the establishment of new ones for this purpose. The project will facilitate exchange between ongoing initiatives. For instance, with regard to results-based management, exchange could be facilitated between the South Asia Department RETA on mainstreaming managing for development results in support of poverty reduction in South Asia⁷, the Philippines TA on harmonization and managing for results⁸, and the RETA on decentralization in social sectors⁹. The ideal platform for sharing the lessons with DMCs not directly involved in the projects appears to be the community of practice for results-based management,¹⁰ which was recently uploaded by the Results Unit in the Strategy and Policy Department. Similar mechanisms could be set up for financial management, procurement, and other critical country capacities.

⁵ ADB. 2006. *Monthly Summary on Approved Small-Scale Technical Assistance Projects (as of 30 April 2006)*. Manila.

⁶ ADB. 2004. *Technical Assistance for Pilot Project on Institutionalizing Civil-Society Participation to Create Local Pro-Poor Projects (Financed by the Poverty Reduction Cooperation Fund)*. Manila.

⁷ ADB. 2006. *Proposed Technical Assistance for Mainstreaming Managing for Development Results in Support of Poverty Reduction in South Asia (Financed by the Poverty Reduction Cooperation Fund)*. Manila.

⁸ ADB. 2005. *Technical Assistance to the Philippines for Harmonization and Managing for Results*. Manila.

⁹ ADB. 2004. *Technical Assistance for Decentralization in Social Sectors*. Manila.

¹⁰ ADB. 2005. *Monthly Summary on Approved Small-Scale Technical Assistance Projects (as of 30 November 2005)*. Manila.

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