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INTEGRATING CAPACITY DEVELOPMENT INTO COUNTRY PROGRAMS AND OPERATIONS

Proposed Medium-Term Framework and Action Plan
2006–2010

Draft Final Report

This working paper may not reflect the views of ADB's Board of Directors. Comments may be submitted to cbuentjen@adb.org by **12 July 2006**.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADB I	–	Asian Development Bank Institute
BPHR	–	Human Resources Division
CD	–	capacity development
CDWG	–	Capacity Development Working Group
CSP	–	Country strategy and program
CWRD	–	Central and West Asia Department
DMC	–	developing member country
EARD	–	East Asia Department
GCBP	–	Governance and Capacity Building Policy
GMS	–	Greater Mekong Subregion
JFPR	–	Japan Fund for Poverty Reduction
MDB	–	multilateral development bank
MDG	–	Millennium Development Goals
MTS	–	Medium-term strategy
NBP	–	new business process
NGO	–	Non-government organization
OCR	–	Ordinary capital resources
OECD/DAC	–	Organization for Economic Co-Operation and Development/Development Assistance Committee
OED	–	Operations Evaluation Department
PARD	–	Pacific Regional Department
PPMS	–	project performance monitoring system
RD	–	regional department
RSCG	–	Capacity Development and Governance Division
RSDD	–	Regional and Sustainable Development Department
SARD	–	South Asia Department
SERD	–	Southeast Asia Department
SES	–	special evaluation study
SPD	–	Strategy and Policy Department
TA	–	technical assistance
UN	–	United Nations
UNDP	–	United Nations Development Programme

NOTE

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

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EXECUTIVE SUMMARY

'People everywhere can create amazing organizations if they have access to some resources, a protected operating space, some encouragement and the chance to create some meaning in their lives and those of others'.¹

In 2004, ADB adopted Capacity Development (CD) as a thematic priority. By doing so, ADB acknowledged that strengthened country capacity is not only a means to achieving 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 for enhancing the effectiveness, efficiency, and sustainability of ADB-supported CD interventions. This Report summarizes the findings and recommendations of the working group.

Despite massive investments in CD over the past decades, constrained capacities clearly remain one of the major obstacles to sustainable development in the Asia and Pacific region. There is a need to strengthen the effectiveness of CD investments to avoid negative impacts on service delivery to the poor, the investment climate and the effectiveness of development lending. This view is shared by DMCs that have been increasingly vocal about the need for value addition beyond investments and the need for donors to develop a good understanding of country capacities and change management processes.

CD has received much attention in the global development discussion since the thematic priority was introduced. The need for systematic learning by the international community is being addressed by various global CD networks, such as the Learning Network for Capacity Development and is supported by intensive applied research². The emerging body of international assistance experience has led to the approval of a Good Practice Paper on CD³ by the Steering Committee OECD-DAC Steering Committee in February 2006. A consensus has been evolving in the development community that CD is primarily the responsibility of developing countries, with donors playing a supportive role. Recognizing the need for country leadership and ownership of CD processes has implications for the way external departments engage with DMCs. The second chapter of this Report sets the stage by identifying key elements of successful CD approaches of external CD providers based on an overview of the emerging lessons from the growing body of international CD assistance experience.

At the country level, donors need to be able to (i) develop a joint understanding with DMCs on CD concepts and objectives, (ii) place emphasis on country leadership, ownership and systems orientation; (iii) support result-oriented and inclusive processes with accountability structures primary aimed at domestic constituencies; and (iv) use country systems to the extent possible rather than to bypass them 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 to modalities at donor and country level.

The third chapter provides an analysis of ADB's present approach to strengthening CD focusing on two areas: (i) CD focus in ADB's country programs and operations; and (ii) ADB's internal support systems for CD. As far as the CD focus in country programs and operations is concerned, a considerable number of projects have been classified as CD in 2005,

¹ P. Morgan. 2004. What is Capacity? Going beyond the Conventional Wisdom. News from the Nordic Africa Institute 2/2004.

² The European Centre for Development Policy and Management's Study on Capacity, Change and Performance has stimulated intensive discussions on innovative approaches to Capacity Development assistance.

³ Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC). 2006. *The Challenge of Capacity Development: Working Towards Good Practice*. February.

the first year of the application of a CD classification system and Country Strategies and Programs have placed increased emphasis on CD objectives. However, there is a need to (i) strengthen the CD focus in country development strategies as well as in ADB-supported sector and thematic strategies and roadmaps; (ii) improve the CD focus in ADB supported programs and projects; (iii) develop appropriate modalities for delivering CD assistance; (iv) develop effective mechanisms to engage civil society and the private sector in the delivery of CD support; and (v) strengthen country capacities as a basis for aligning donor assistance with country systems.

ADB's organizational effectiveness for achieving CD objectives will have to be strengthened by introducing an effective results-based management system for CD. Initial steps have successfully been taken with the introduction of a CD classification system in 2005. Further measures will be needed to strengthen the capability of RDs with regard to planning, implementing and monitoring CD approaches. This will require setting up effective human resource management (including more effective decentralization to Resident Missions), knowledge management and operational support systems for CD. The situation calls for a flexible approach to integrating CD in ADB, with more emphasis on operational experimentation, learning by doing, demonstration of results and progressive organizational and procedural adaptation.

There is unlikely to be a single concept of CD that each country finds best expresses its own view of the critical development processes involved. In chapter 4 B, the Report offers a reasonably robust template from which the regional departments, in collaboration with their DMCs and in consultation with other donors, can design their own concepts. The important requirement is that the CD approach is jointly agreed and routinely used (with refinement as experience accumulates) as the basis for identifying DMCs' CD needs and formulating and monitoring responses to these. The concept is based on a systems approach and emphasizes organizational and institutional capacities as well as partnerships and networks.

Key features of a medium-term action plan for CD are presented in chapter 4C, including a significant learning program. The proposed Medium Term Action Plan for Capacity Development for the period 2006-2010 emphasizes: (i) country ownership of demand-driven CD; (ii) improvement of existing country systems in ADB priority sectors and themes; (iii) CD support modalities that are flexible, programmatic and are managed by results; (iv) wider use of all available sources of CD provision; and (v) continual knowledge refreshment from structured learning and information exchange. The Action Plan for 2006-2010 focuses on two outcomes: (i) institutionalizing a CD focus in country programs and operations; and (ii) establishing internal support systems for CD.

If ADB is to provide more effective CD support to DMCs, it must adjust its organizational structure, business processes and procedures. The Action Plan is a sequenced and monitorable CD work program for moving forward with this agenda. It will enable ADB to understand better the needs of its clients, strengthen country capacities in a demand-oriented, effective and efficient manner, allow CD assistance to be appropriately scaled up through implementation of customized CD solutions and address the major financing gaps in the Region. It will also provide opportunities for improved partnerships and stronger involvement of the private sector and 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

*"Adequate country capacity is one of the critical missing factors in current efforts to meet the Millennium Development Goals."*¹

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" (footnote 1, para. 7) and is the key to overall development performance.² The process of capacity development (CD) itself, however, has proved to be one of the most intractable of challenges for international assistance. Despite huge external investment over many decades (much of which went under the name of 'technical cooperation'), progress in raising capacity levels in developing countries has been disappointingly slow. Since 2000, when the United Nations (UN) Millennium Development Declaration and the Millennium Development Goals (MDGs) were adopted, the challenge of accelerating sustainable CD has taken on a new urgency. Global Monitoring Reports on MDG progress have consistently revealed that public sector capacity lagged behind all other MDG benchmarks.

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 (henceforth 'the 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, the 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 (see Supplementary Appendix 1). According to the 2004 dataset, 24 out of the 35 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 countries, organizational capacities vary between and within sectors and between and within regions. The comparison of the 1996 and 2004 datasets show 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. CD approaches need to be adapted to country circumstances. Weakly performing countries, for example, require greater selectivity in the use of CD instruments, a focus on core government functions, particular care in the selection of partners and commitment to working with them on a consistent and sustained basis. 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.

¹ Organization for Economic Cooperation and Development/Development Assistance Committee. 2006. *The Challenge of Capacity Development: Working Towards Good Practice*. February, p. 3.

² A different definition is used by the European Centre for Development Policy Management study. "Capacity is the emergent combination of attributes, capabilities and relationships that enables a system to exist, adapt and perform." The definition is based on systems thinking.

³ World Bank. 2005b. *Governance Matters IV: Governance Indicators for 1996-2004*. D. A. Kraay, and M. Mastruzzi. May. The dimension is defined as "competency of the bureaucracy and the quality of public service delivery."

4. Constrained capacities occur despite massive investments in official development assistance. During 2000-2003, approximately \$21.6 billion were spent on technical cooperation commitments for Asia and Oceania (Supplementary Appendix 2), of which approximately 3 % (\$667 million) were invested by ADB through its technical assistance (TA) modality. The indicator is widely used as an indicator for investments in CD, but has been criticized for its narrow focus on human capacities and knowledge transfer which is not consistent with the findings of the more recent CD debate. The indicator does not cover CD loan investments which may have led to understating ADB's impact on existing capacities.

5. In 2005, ADB introduced a CD classification system for its operations that is more selective with regard to classifying TA investments as CD, than the technical cooperation indicator, but also allows for lending to be categorized as CD. According to an initial analysis of the 2005 database, CD TAs amount to \$38 million and make up for about one fifth of total TA investments. CD lending is about 13% of total lending (\$688 million). This high number for the first year of introduction of a new thematic priority points to CD being nothing new to ADB. Considerable CD experience has been built up over time particularly in the sectors and themes in which ADB has been active over many years. A sector and regional breakdown of the 2005 numbers is available in Supplementary Appendix 3.

6. Given the persisting capacity shortcoming in DMCs in the Region, there is a need to significantly increase effectiveness of investments. ADB's impact on overall capacities in the Region will depend on its ability to leverage some of the other CD investments in the Region. These include those provided by the DMCs Government themselves and the international donor community, but also investments of the private sector. This requires credibility of ADB as a professional CD provider.

C. Capacity Development as a Recent Thematic Priority for ADB

7. In ADB, CD was given internal impetus by Board approval of the 2004 Review of ADB's Poverty Reduction Strategy.⁴ This review concluded that to achieve inclusive growth, DMCs needed to enhance their capacity to formulate and implement policies, reforms and investments for poverty reduction. The Review suggested that "by elevating CD to a thematic priority, ADB will review its current definition of, and approaches to CD to achieve improved and more demand-driven delivery of CD support to the DMCs. An ADB-wide CD working group will lead the exercise" (footnote 4, para. 80). These recommendations of the Review of the Poverty Reduction Strategy are being implemented as part of ADB's wider reform agenda.

8. An interdepartmental Capacity Development Working Group (CDWG) was established in April 2004. CDWG was tasked with (i) developing a classification system for CD; and (ii) recommending a medium-term framework and budgeted action plan for improving the effectiveness, efficiency, and sustainability of ADB CD interventions, including proposals for updating related business processes.

D. Purpose and Structure of the Report

9. The Report summarizes the findings and recommendations of CDWG and proposes an operational Medium-Term Framework and Budgeted Action Plan 2006-2010 for enhancing the client-orientation, effectiveness, efficiency and sustainability of ADB supported CD 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

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

December 2005. Since then the Report has been updated, comments have been incorporated and the Report has been substantially shortened. Management support is sought on the Action Plan proposed in Chapter IV.

10. The Report draws on desk studies, CDWG discussions and focus group discussions with Regional Departments (RDs)⁵. Desk studies covered the contemporary CD debate and CD reform approaches of other donors as well as internal studies on ADB's performance with regard to delivery of CD. In the absence of a systematic results-based management for CD, the assessment of ADB's performance with regard to the delivery of CD objectives faced limitations and is somewhat anecdotal. Stakeholder perspectives were determined based on findings of external consultations on related initiatives such as the Review of the Implementation of the Governance and Anticorruption Policies⁶ and ongoing work to enhance ADB support to MIC and OCR borrowers.⁷ Background materials have been made available through various Supplementary Appendixes. The Report was able to draw on a number of ADB supported good practices, a selection of which has been summarized in boxes 1-3. The Report has also benefited from other reform initiatives in 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 sets the stage by identifying what constitutes successful CD approaches of external CD providers based on the findings of the contemporary development effectiveness debate and recent DMC demands. Chapter III describes ADB's present approach to CD based on an analysis of strengths and weaknesses that has been pointed out in earlier reports. Performance gaps of ADB's CD approach are identified and in Chapter IV a remedial medium-term and budgeted program to address these gaps is proposed.

II. PRINCIPLES GUIDING EFFECTIVE CAPACITY DEVELOPMENT

"One of the most important elements of the new consensus between donors and developing countries is that capacity development is primarily the responsibility of partner countries, with donors playing a supportive role."
DAC Network on Governance (footnote 1, p. 11)

A. Recognising the Need for country Leadership and Ownership of CD Processes

12. **DMC Demands.** Country representatives have been vocal in requesting donors to contribute more effectively to country-led development through (i) value addition beyond the financing needs; (ii) CD of the local bodies involved in service delivery; (iii) ownership rather than conditionality; (iv) the need for CD 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 donor country offices and involvement of national

⁵ In November 2004, 8 focus group discussions were conducted. In total, about 100 staff members from Headquarters and Resident Missions participated in these discussions.

⁶ ADB. 2006a. *Improving Governance and Fighting Corruption. Implementing the Governance and Anticorruption Policies of the Asian Development Bank*. 1 February.

⁷ ADB. 2005d. *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. 2003b. *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 (IA) Panel on the Effectiveness of the Reorganization of the Asian Development Bank*.

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

staff; and (viii) reduced reliance on international consultants.¹⁰ These statements reflect a developing country perception that the support given did not always address the real issues or was otherwise inappropriate to the circumstances. The statements also point at some marginalisation of the recipient in the management of CD assistance, frequently exacerbated by donors' insistence on using particular structures and processes for project implementation that were different from the recipients' own.

13. **Country Ownership and Leadership.** The demands are in line with the growing body of international CD assistance experience (Supplementary Appendix 4) that has recently been consolidated and harmonized by the Organization for Economic Cooperation and Development (OECD) (footnote 1). This calls for a need to identify CD objectives and targets in country poverty reduction and development strategies. Several countries in the Region are taking their new leadership role 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 top leadership in 2002 and has since then guided numerous CD interventions in Indonesia, including ADB funded interventions as the Sustainable Capacity Building for Decentralization loan. Further examples are the sector-wide approaches that have been implemented in the education sectors of Cambodia, Bangladesh and Mongolia led by the respective Ministries of Education or effective sector planning in the power sector in Bangladesh.

Box 1: Indonesia Ministry of Home Affairs' National Framework for Capacity Building to Support Decentralization

The Indonesian Ministry of Home Affairs (MoHA), supported by GTZ and US-AID led an innovative process to coordinate support for local government CD related to the introduction of the decentralization legislation which came into effect in 2001. A complex consultation process between MoHA, sector departments, other central government agencies, the associations of regional governments, selected regions, donor 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 MoHA officials and officials of the Planning Department (BAPPENAS). The Framework stipulates a number of policy principles such as (i) targeting of different levels of government and of different types of stakeholders; (ii) focus on demand-driven programs based on specific needs; (iii) integration of activities, i.e. combining training and skills development for individuals with institutional reforms and modification of the regulatory framework at central or local level; (iv) focus on horizontal exchange and peer learning between local governments; (v) involvement of CD providers, like training institutes, universities, management and consultancy institutes in order 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/Chairman of BAPPENAS in 2002, presented to the consultative group meetings and has since then guided numerous CD interventions in Indonesia.

Source: www.gtzsfdm.or.id/documents.cap.bld/reports/

14. **Responsibilities for CD.** Drawing on the lessons learned in the international CD debate, a consensus is now evolving between donors and developing countries that CD is primarily the responsibility of developing countries, with donors playing a supportive role. The Paris Declaration on Aid Effectiveness, adopted in March 2005, calls for making CD an explicit development objective of country development strategies.¹¹ So far, capacity objectives are often not systematically addressed in country strategies and guidance on targeting and sequencing country-wide CD interventions is not yet readily available in the Region. A major effort is

¹⁰ The statements were made by DMC representatives during country consultations held relating to the preparation of the Governance and Anticorruption Review and the Middle Income Strategy.

¹¹ OECD-DAC. 2005a. *Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability*. High Level Forum on Harmonization, Alignment and Results. March, article 23.

underway to strengthen DMC capacities for preparing and implementing better national Poverty Reduction Strategies. However, country development strategies may not be the right entry point for initial CD strategy discussions, since they are often fairly general and do not allow for the level of detail in results frameworks that would be required for an effective CD strategy. A bottom-up strategic process, in comparison, can focus on three interlinked areas: (i) sector capacities; (ii) crosscutting capacities, such as country wide decentralization, financial management, procurement, and accountability capacities; and (iii) local government capacities. Such an approach, albeit taking account of wider institutional constraints, probably allows country preferences to be expressed more easily and hence may - in practice - provide a sounder foundation on which to build a genuinely demand-driven CD strategy.

15. **CD Providers.** CD can be provided by a range of suppliers and facilitators, both internal and external. Indeed, effective CD will usually depend on the successful integration of CD inputs from multiple sources, involving different types of organisations and groups working in a variety of roles depending on their 'comparative advantage'. The challenge for donors is to identify their own comparative advantages and then operate accordingly as one element of a country-led partnership. This requires a sound understanding of a donor's strengths and weaknesses as well as the existing CD 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 donors to avoid problems resulting from staff attrition of donor-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 donor partnerships aligned around country systems.

16. **Use of Country Systems for Donor 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, donors should seek to strengthen them rather than trying to bypass them. Otherwise, local ownership of CD interventions is likely to be diminished, with the result that donor support ends up substituting for local capacity. The use of country systems by donors 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.

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

17. **A Shared View of CD.** Establishing a shared view of CD is important to ensure an effective dialogue about CD assistance between the donor community and developing countries. This requires the joint conceptualization of CD dimensions and processes involved in CD. A starting point could be taking into account OECD's harmonized definition of CD as "the process whereby people, organizations, and society as a whole unleash, strengthen, create, adapt, and maintain capacity over time" (footnote 1, para. 9). This recognizes that CD is not just a public sector matter, but also concerns the private sector, non-government entities and civil society. In further elaborations, the OECD-DAC good practice paper distinguishes clearly between three dimensions: individual, organizational, and the enabling environment.

18. **Individual and Organizational Dimension.** The organizational dimension is about improving and sustaining the performance of the organization that is the main entry point of a CD intervention. Organizational performance is all about results. Does the agency fulfil its mandate, whether for services, policy advice or regulation, effectively and efficiently? If there is

a gap between actual and desired performance? CD within the organization aims at reducing that gap. Training of the organization's staff, the individual capacity dimension, is just one way of doing this and is often not the top priority. Also important is the quality of an organization's relationships with other organizations, of which two particularly important categories are the organisation's development partners (such as local government bodies, non-government organizations) and external donors, and its customers, clients or end-users. Various procedures for analysing the performance of organisations 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 are being overlooked.

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

Since 2000, ADB has adopted a coordinated approach to education reform. Extensive policy dialogue at the sector level has been complemented by comprehensive institutional assessment, related to financial and decentralization reform. This allowed for coordinated institutional and organizational assessment at the sector level. A policy action matrix, formulated and approved by Government ensured national ownership and realistic education organizational changes. A follow-up program loan in late 2001 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 2003/04, identified legislative and regulatory reform, especially for improved staff deployment and public financial accounting and audit 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: SERD

19. **Enabling Environment, Institutional Capacities and Political Economy.** A critical determinant of the performance of an organization is its external institutional environment, being the rules (formal and informal), practices and customs that express the country's political, social and economic culture. In such situations, CD interventions that failed to address the need for institutional - and related policy - reform are unlikely to have much impact on organisational performance per se. For about a decade, donors have also been placing more emphasis on the analysis of institutions and their political economy setting, i.e. through public expenditure reviews, governance assessments and drivers of change studies. The studies are widely available, but often limited to an analysis of country-wide cross-cutting capacities. Sector-specific approaches to analysing 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 CD advance due to its potential contribution to greater community-based organization and grassroots organization involvement in the development process. However, the substantial organisational adjustments involved can complicate existing development assistance operations and slow down project cycles for a considerable time. This can give the appearance of degraded capacity, particularly for public sector financial management.

20. **Public Sector Performance and Results-Oriented.** The final test for effective CD is that targeted organizations are able to deliver more effectively to their mandates 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 CD for

organizations. Performance and capacity are interrelated, but not synonymous. While performance may be one indicator of capacity, it may be achieved by capacity substitution. Indicators need to be developed that provide more detail on progress with regard to organizational, and institutional capacities as well as with regard to important process variables such as leadership, ownership, and inclusiveness.

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

Key features of ADB support have included: (i) assisting with institutional arrangements for public/private partnership; (ii) definition of well defined sector and organizational performance objectives; (iii) a phased power sector capacity development plan; and (iv) clear legislative and regulatory reforms. This has involved careful dialogue with Government and other stakeholders to secure national leadership and commitment to reforms, including 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, jointly financed by key donors. ADB lending of around US\$ 950 million since 1989 has been complemented by a series of TA support focusing on institutional, regulatory and sector performance and financing issues.

Source: SARD

21. **Inclusiveness and Accountability.** An inclusive approach is required to establish existing capacity levels, deciding on which capacity shortfalls need to be tackled first and then designing CD interventions accordingly. CD processes are not always linear, but frequently complex, and unpredictable. The support arrangement, therefore, need to be flexible and sufficient provisions need to be made for regularly monitoring progress and for adjusting the support. Techniques such as problem tree analysis and performance gap analysis can provide useful starting points for jointly identifying core issues associated with under-performance by organisations. However, 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. 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 may not satisfy the legitimate interests of donors and their home constituencies and compromises will have to be found.

22. **Change Management, Process and Systems Orientation.** CD is by nature a gradual, organic process that is difficult to predict. CD processes cannot be hastened without undermining it. Hence, there is a need for development partners to adjust their support intervention to the sequencing demands of CD interventions. The recent study on Capacity, Change, and Performance (footnote 2) has stressed the potential impact of systems thinking on CD concept and practice. Systems thinking implies looking at CD 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 Facilitators

23. Better results are obtained from CD interventions when CD providers act as effective change agents and facilitate change management processes in client organisations. There is some evidence that successful CD experience is correlated with a type of relationship external

facilitators have with some agencies that is more like 'client management' than 'task management'. This 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 CD 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 and sectors/themes concerned; (ii) knowledgeable staff who have acquired the confidence of senior officials in the DMCs; (iii) consistency of approach, with donors committed to providing stable and continuing support for a long-term CD process; and (iv) willingness of donors to continually adjust this assistance to meet changing circumstances. For these reasons, many donors have engaged in a process of decentralizing responsibilities to client country offices.¹²

24. To be able to align its operations at country level with good practice principles for CD, external facilitators need to (i) develop a joint understanding with its clients on CD concepts and objectives, (ii) place emphasis on country leadership, ownership and systems orientation; (iii) support result-oriented and inclusive change management processes with accountability structures primary aimed at domestic constituencies; and (iv) use country systems to the extent possible rather than bypassing them with regard to the management of donor supported operations. These requirements pose major challenges on donor business processes and procedures and many donors have started adjusting to the demands of DMCs.

III. ADB'S PRESENT APPROACH TO CAPACITY DEVELOPMENT

*"While ADB has always assisted in building capacity, this has generally been done within the context of specific project designs. The difference now is that we treat sustainable capacity development as an integral and strategic component of our CSPs. Over time, this approach will empower our DMCs to take full ownership of their national development agendas and exercise more far-reaching country leadership in the fight against poverty."*¹³

A. Policy Underpinnings

25. CD 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 'building' in DMCs and to develop a more comprehensive and appropriate CB program.
- (ii) **Board Information Paper on Capacity Building.** The Board Information Paper¹⁵ advocated a country specific approach and proposed that monitoring capacity 'building' performance in the DMCs should be an intrinsic part of ADB's assessment of its own performance. The Paper recognised the contribution of civil society and the private sector to overall country capacity.

¹² For instance, the World Bank has half of its staff in country offices. ADB. 2006b. *A Review of Community Driven Development and Related Approaches at the ADB*. Draft. March 2006, para 61.

¹³ Kuroda, H. 2005. *New Development Partnership*. In: ADB Review. June. P 4.

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

¹⁵ ADB. 1994b. *Bank Support for Capacity Building in Developing Member Countries*. Board Information Paper. Manila.

- (iii) **Sound Development Management Policy.**¹⁶ The Governance Policy served as the policy basis for capacity building until CD was introduced as an additional thematic priority. Governance and capacity building were seen as 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 (i) ensure country leadership and ownership of the development agenda; (ii) take a long-term approach to development assistance; (iii) enhance strategic alliances and partnerships; and (iv) measure development impact. Correspondingly, the first medium-term strategy (MTS)¹⁸ regarded capacity building as one of the critical challenges.
- (v) **Medium-Term Strategy II.** The stated aim of the MTS II, 2006-08 (footnote 9) 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 present emphasis on loan approval and lending volumes. MTS II identifies five strategic priorities¹⁹ to enhance ADB's relevance to meet key development challenges in the Region and identifies core operational sectors²⁰ where ADB will focus its operations and which will determine resource allocation and staff 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. CD is critical to the achievement of all five development challenges of MTS II. For instance, with regard to catalyzing investment, CD is widely seen as a central priority for establishing an investment climate.²¹ Strengthening inclusiveness is a key feature of CD approaches as has been pointed out in para. 21.
- (vi) **Review of the Implementation of Governance and Anticorruption Policies.** The Report (footnote 6) has a number of important findings that are relevant with regard to strengthening ADB's effectiveness for CD and that will be quoted in the relevant sections of this Report. Most importantly, the Review pointed out a lack

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

¹⁷ ADB. 2001g. *Long-Term Strategic Framework of the Asian Development Bank (2000-2015)*. Manila (Sec. M17-01).

¹⁸ ADB. 2001a. *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 road transport, energy, urban infrastructure, rural infrastructure, education and financial sector.

²¹ World Economic Forum. 2006. *Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyse Private Investment*. 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. (...) 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’ (p. 16).

of results based management and clear prioritization in ADB's governance action plan.

26. It is evident from the list of relevant policy and strategic documents that many important principles of a modern CD policy, such as emphasis on ownership, leadership and inclusiveness had been recognized in high level strategic documents prior to the approval of the 2004 Poverty Reduction Review. CD was, however, seen as a means for achieving improved public sector performance and was meant to be addressed through governance action plans. However, specific CD objectives were not explicitly defined in governance action plans and insufficient attention was paid to adopting results-based approaches to management of governance action plans. The introduction of CD as a thematic priority in 2004 was a breakthrough insofar, as ADB recognized for the first time that CD is not only a means, but also an objective in its own right. This opens up opportunities for results based management of the thematic priority. 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 recognition of country leadership and ownership at the policy level and to improve business processes and procedures. 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 CD activities. ADB's Business Processes²⁴ emphasize the importance of the CSP as the basis for promoting better policy and strategic dialogue with DMCs. Following the adoption of ADB's Management for Development Results Action Plan, CSPs are also required to be results-based, with the development impact of ADB's program being measured on a regular basis. A Practice Note on Results-Based CSPs was published in September 2005²⁵ and the final guideline will need to reflect the emerging international consensus on how to address CD in country development strategies and sector roadmaps.

28. **CD Focus of Country Development Plans.** There is a lack of clarity concerning organizational and institutional reforms in country strategic priorities. ADB could be more systematically engaged in helping DMCs identify priorities for organizational and institutional development in key sectors and themes. This would contribute to the preparation of realistic CD focused national poverty reduction strategies and their results-based management and evaluation.

29. **CD 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 the sector roadmaps have been generally weak. Roadmaps are often not based on a good understanding of country capacities and CD priorities and it is not always clear in how far ADB's program contributes to the larger reform agenda within a sector or theme. The understanding of the political economy context is 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 cross-cutting and sector agencies. Assessments of basic change

²² World Bank. 2005c. *Capacity Building in Africa: An OED Evaluation*. World Bank Evaluation Department, p. 5.

²³ ADB. 2002c. *Resident Mission Policy*. February, Manila.

²⁴ ADB. 2002b. *Business Processes for the Reorganized ADB*. Manila.

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

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 on critical country capacities, such as public financial management and results-based management. A sequenced CD plan is required, with clearly specified performance indicators and stronger supervision, monitoring and accountability systems for CD at cross-cutting thematic, sector and local government levels.²⁶ A Report on Further Enhancing CSP and Business Processes is under preparation aiming at making ADB programming and operations processing more responsive, relevant and results-oriented. An early draft of the report indicates that more rigorous sector diagnostics and integration of thematic assessments may be one of the major modifications of the existing CSP processes.

30. **Modalities.** Lending as well as TA modalities were used for CD purposes. According to an analysis conducted as part of the Governance Review (footnote 6) about 20% of governance TAs were focused on CD. Of 30 transport projects reviewed, 59% included institutional reforms and organizational development and 17% also had TAs attached. Half of 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 and 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, institutional reforms and CD 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 the South Asia Regional Department found that investment and CD probably need to go together because it is difficult to build capacity in an investment vacuum.²⁷ 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 TAs 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 CD 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 studies²⁸ 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 grassroots civil society organizations, such as water users associations and farmer's 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 instrument to support civil society involvement in ADB operations. The positive experience from this needs scaling up and mainstreaming in ADB's program.

32. **Results and Process Orientation.** Operations Evaluation Department (OED) studies highlight a lack of clarity about CD assistance objectives and results measurement. 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 main element of

²⁶ ADB. 2005e. The Report *Innovation and Efficiency Initiative. Change Proposals on Country Strategy & Program and Business Processes*. Manila has come up with a number of proposals concerning CSP processes.

²⁷ ADB. 2006e. *Study of Capacity Development in South Asia*. February.

²⁸ ADB. 2006f. *Involvement of Civil Society Organizations in ADB's Operations*; draft 20 March; ADB. 2006b. *A Review of Community Driven Development and Related Approaches at ADB*. March.

organizational CD. Institutional CD is often seen as outside the sphere of influence of the project and neglected. Interventions are often not phased in a way that allows for the time and sequencing demands of CD measures. With regard to monitoring and evaluation systems, design and monitoring frameworks do not clearly identify CD targets and performance indicators. Specific CD indicators, such as indicators relating to ownership, leadership and inclusiveness are normally not defined. 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 CD.

C. ADB's Internal Support Systems for CD

33. **CD Objectives and Leadership for CD.** ADB has committed itself to implement international commitments, such as the Paris Declaration (Supplementary Appendix 7) and senior management has continuously and publicly highlighted the importance of CD. However, ADB-wide and RD-wide CD objectives have not been operationalized and CD performance has not been measured against clearly defined CD targets. The Management Committee should become involved in ADB-wide implementation of CD based on clearly defined targets.

34. **Classification and Reporting System.** Systematic monitoring of CD only began in 2005 with the introduction of a classification system. Including CD in the classification system has considerably improved the database for CD and has made adequate tracking of CD interventions possible. This is the basis for an effective RD and ADB-wide accountability mechanism and for an in depth analysis of CD approaches. The first thematic report on ADB's CD program will be prepared in 2006 following a generic structure. The report can be widely shared, which will allow for client feedback to inform future strategic decision-making.

35. **Operations Evaluation Department's** investigations have contributed significantly to ADB's understanding of the strengths and weaknesses of its CD program, but OED has been facing difficulties with evaluating the impact of CD operations due to a lack of clearly identified CD concepts, principles, and targets.

36. **Staff Skills and Competencies.** The Review of 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 for identifying staff skills and actual involvement in CD activities. It can be expected that based on the considerable sector experience ADB has obtained over the years, staff have gained a good understanding of CD issues in the sectors they have been active in. Following the introduction of governance as a theme, there is also some evidence that CD skills have been obtained with regard to cross-cutting country contexts. Experience in applying governance related skills to the institutional environment of particular sectors is, however, 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 CD studies²⁹ as well as MTS II have pointed out that ADB staff tended to focus on processing rather than implementation and that there were few incentives for staff to supervise and monitor projects effectively. This reflects the focus of RDs' implementation and monitoring systems on approval targets rather than development impacts. This leads to insufficient attention to CD issues, with staff tending to act as project administrators rather than facilitators of change management processes. Frequent

²⁹ See for instance ADB. 2001h. *Capacity Development-Bank's Experience and Strategies for the Future*. Final report submitted to Agriculture East Division by C. Narayanasuwami, paras. 48-50.

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 aligned with ADB's strategic CD objectives, which works against efforts to strengthen staff skills and competencies for achieving CD and other development objectives.

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

D. Learning the Lessons for ADB

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

40. This will require changes in ADB's present approach to CD. Emphasis will have to be placed on the country level, in particular the following areas (i) strengthen the CD focus in ADB-supported sector and thematic strategies and roadmaps; (ii) improve the CD focus in ADB supported programs and projects; (iii) develop appropriate modalities for delivering CD assistance; (iv) develop effective mechanisms to engage civil society and the private sector in the delivery of CD support; (v) strengthen country capacities as a basis for aligning donor assistance with country systems; and (vi) establish partnerships with other donors, in particular the UN system and bilaterals, to effectively support country-led and owned CD strategies.

41. ADB's organizational effectiveness for achieving CD objectives will have to be strengthened by introducing an effective results-based management system for CD. Initial steps have successfully been taken with the introduction of a CD classification system in 2005. Further measures will be needed to strengthen the capability of RDs with regard to planning, implementing and monitoring CD approaches. This will require setting up effective human resource management (including more effective decentralization to Resident Missions), knowledge management and operational support systems for CD.

IV. PROPOSED MEDIUM TERM ACTION PLAN FOR CAPACITY DEVELOPMENT 2006-10

"ADB is working hard to alleviate these constraints in our DMCs through systematic and sustainable capacity development." (H. Kuroda, 2005, p4)

A. Objective

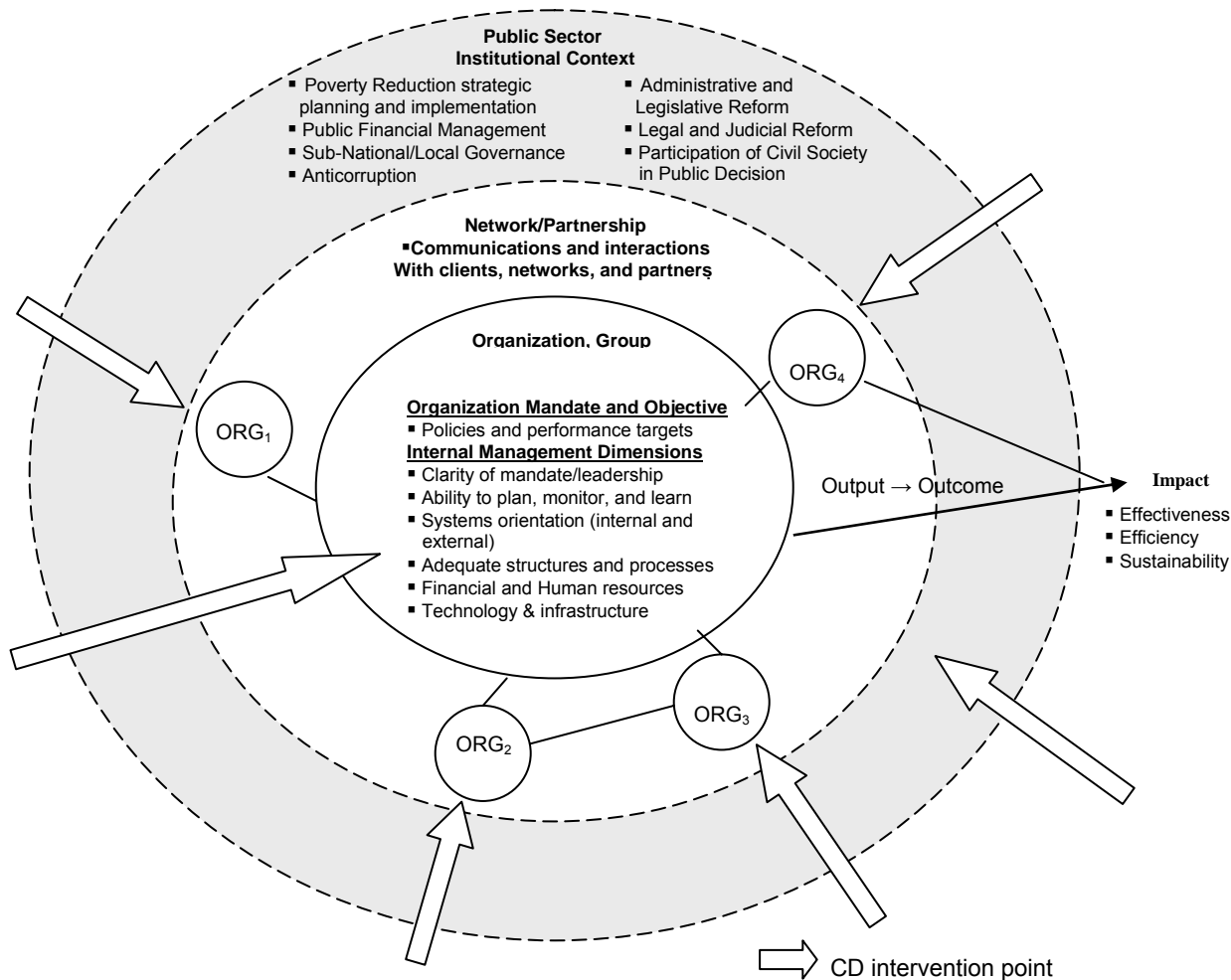
42. Chapters II and III have identified the key elements of an effective CD assistance strategy, based on analysis of past experiences of the development community in general and of ADB and its DMCs in particular. In summary, this Report emphasizes: (i) country ownership of CD; (ii) the improvement of the CD focus of existing country systems in ADB priority sectors and themes; (iii) support modalities for CD that are flexible, programmatic, and are managed by results; (iv) making wider use of all available sources of CD provision, both internal and external; and (v) continual knowledge refreshment from structured learning and information exchange processes. A Medium-Term Action Plan is proposed to change the way in which ADB actually deals with CD in its country programs and operations.

B. Defining CD in Operational Terms

43. The first requirement for the Action Plan is a common understanding, by staff in ADB and DMC agencies, of what CD means and what CD assistance is about. Generic concepts, such as those presented in chapter 2 are often perceived as overly theoretical by practitioners and more work is needed to customize the concept to specific CD interventions, i.e. at country, sector, local government, or organizational level. There is unlikely to be a single concept of CD that each country finds best expresses its own view of the critical development processes involved. The concept presented here is therefore offered as a reasonably robust template from which the regional departments, in collaboration with their DMCs and in consultation with other donors, can design their own concepts. The important requirement is that the CD approach is jointly agreed and routinely used (with refinement as experience accumulates) as the basis for identifying DMCs' CD needs and formulating and monitoring responses to these.

44. This CD template is a system with three main dimensions, namely (i) organizations; (ii) institutions; and (iii) inter-organization/group relations (encompassing client relations, networks and partnerships). These constitute the sub-themes of ADB's classification of CD that became effective in January 2005 (Supplementary Appendix 8). Figure 1 is a diagrammatic representation of these concepts emphasizing that entry points for CD can be at organizational, institutional and network/partnership level. The first two dimensions are in line with the harmonized CD concept that places emphasis on organizations and the enabling environment. The third dimension emphasizes systems, thus the need for various government and non-government organizations and groups to act in partnership to achieve agreed objectives. It focuses on development processes of a system of particular organizations and groups in DMCs that are primarily responsible for achieving certain development objectives and which should own and lead efforts to improve their capabilities and performance. Such entities represent key entry points for ADB's CD interventions and can take place at sector, cross-cutting, or local government level. Aggregation through bottom-up processes will allow for strategic prioritization at higher levels.

Figure 1: Template for Capacity Development



Source: CDWG discussions.

45. **CD and Governance.** Governance and CD differ insofar as governance is a normative concept that identifies certain standards such as transparency and accountability and measures country circumstances against these standards. In contrast, CD places emphasis on achieving objectives identified by DMC organizations and other relevant stakeholders. CD is instrumental to achieve governance objectives as it is to achieve environment, gender or sector objectives. Governance is highly supportive to CD, as progress with regard to achieving governance objectives, such as improved accountability through financial management rules and regulations is likely to strengthen the capacities of an organization to achieve its objectives.

46. **Public sector focus, but inclusive overall.** The model presupposes that public sector agencies will remain the key entry points for ADB's CD operations, but that other key organisations in the private sector, non-government 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 approach³⁰ and the recommendations of two recent studies (footnote 28). As far as improved private sector involvement is concerned, ADB could more

³⁰ ADB. 1996. *Mainstreaming Participatory Development Processes*. Manila

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 CD providers in the recipient country.

C. Key Features of the CD Medium-Term Action Plan

47. The objective of the Action Plan is to strengthen ADB's assistance for CD in DMCs so that it becomes more demand-driven, effective and efficient. More effective ADB CD interventions to DMC clients will contribute to better and more sustainable results by 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 reforms, and effective results management of the new thematic priority will be critical. A mid-term review is proposed for the first half of 2009. It will assess progress against each of the broadly-defined performance indicators set out in the results frameworks and will place special emphasis on analysing the learning programs described below.

48. While the detailed prioritization decisions of their respective CD programs will be taken by each RDs, the ADB wide Action Plan is meant to prioritize cross-cutting CD measures for 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 the following: 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 CD purposes, only guidelines or principles concerning the kinds of attitudes, approaches and behaviour that experience shows are more likely to be effective. Although RDs might accept the theoretical validity of the proposed CD-related changes, some of them may be sceptical about their ability to implement them in practice and the likely benefits of attempting to do so. This situation calls for a flexible approach to integrating CD in ADB (i.e. an internal CD process), with the emphasis on operational experimentation, learning by doing, demonstration of results and progressive organizational and procedural adaptation. Individual RDs will be expected to institutionalize approaches to CD at their own/their DMC's pace and depending on their own/their DMCs commitment and absorptive capacity. The Action Plan consists of two key outcomes:

50. **Outcome 1 will aim at institutionalizing a CD 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 CD strategies and progress; (ii) Strengthened RD-wide results-based management system for CD objectives reflecting baselines and monitorable targets; (iii) more efficient and effective support for improved CD strategic focus in country development and/or poverty reduction strategies; (iv) increased CD focus in CSPs based on quality-at-entry criteria; (v) increased CD focus in CD operations in priority sectors and themes based on quality-at-entry criteria; (vi) increased Resident Mission and Headquarter staff skills and incentives for CD; and (vii) increased experience with piloting new modalities and processes to support CD. For a results framework of outcome 1 see Appendix 1.

51. Efforts to achieve an increased CD focus in CSPs will begin with country teams specifying (i) which organizations in the DMC are being targeted for facilitating CD (with perhaps

key executing agencies who ADB deals with, heading the list); (ii) which institutional elements of the enabling environment of these organizations will be assisted as part of the CSP i.e. civil service reform, legal frameworks; (iii) what are key stakeholders and what partnerships or systems will be supported; and (iv) how these will fit into sector roadmaps presented in the CSP. This implies operationalizing the conceptual framework developed in this Report through the CSPs. ADB typically does 4 or 5 new CSPs each year. All of them should take due account of the above conceptual approach.

52. An increased CD focus in CD operations could be implemented through immediate systematic CD work, 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 the selection of the key executing agencies to ensure ownership. The learning from the pilot initiative will gradually influence standard operational practice, viz. a phased approach of CD, starting with facilitating stakeholder analysis, organizational/institutional diagnostics and gap analysis and establishing performance benchmarks and databases. Project preparation will require a disciplined analysis of executing agency capacity using such performance benchmarks and of the roles of other stakeholders. It will also require an analysis of soft CD factors, such as ownership, leadership, accountability structures to domestic constituencies, and inclusiveness.

53. **Outcome 2 will emphasize establishing internal support systems for CD.** This will comprise the following outputs: (i) effective ADB-wide leadership exercised in support of the proposed CD approach; (ii) improved human resource management for CD; (iii) improved CD focus of transparency, accountability and reporting mechanisms for ADB-wide delivery of results; (iv) increased demand-orientation and effectiveness of upstream technical CD support; (v) improved corporate and regional mechanisms for learning from CD experience; (vi) effective internal and external knowledge sharing and coordination mechanism for CD; and (vii) enhanced CD focus of independent evaluations. For a results framework of outcome 2, see Appendix 2.

54. Key initiatives would include:

- (i) A new Results Monitoring and Reporting Format and System for CD to be applied to all CD operations. This must be the responsibility of RSCG in collaboration with SPRU and the RDs.
- (ii) An HR initiative which would include a competency framework, recruitment of new specialists, a training program for current country team members and mission leaders. This will be the responsibility of BPHR in association with RSCG.
- (iii) An Operational Support System which would include the development of quality-at-entry criteria, CD guidelines, sample Terms of Reference, and selected operational support.
- (iv) A Knowledge Management System which would include a CD website, a resource centre, a systematic approach to documenting and sharing good practice, a consultant database, intra and inter organizational networking. A knowledge exchange and learning program will be set up that addresses important areas of an enhanced CD focus in development assistance where ADB needs to acquire more operational experience or needs 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 could be identified for priority sectors and themes with sector and thematic focal points taking the lead. Specific learning components for such a knowledge exchange program have been tentatively identified on the basis of the priorities emerging from the analysis in Chapters II and III. Further details on these learning component areas are provided in Appendix 3. To ensure relevance and the interest of regional departments, the suggested program builds on the substantive CD work that is already ongoing in RDs and on pilot approaches that cannot currently be mainstreamed on a larger scale. The suggested components are: (i) improving CD focus in ADB supported national poverty reduction processes and sector and thematic strategies and roadmaps; (ii) improving CD focus in ADB-supported programs and projects; (iii) developing appropriate modalities for delivering CD assistance; (iv) developing effective mechanisms to engage civil society, and the private sector in the delivery of CD support; (v) strengthening country capacities as a basis for aligning donor assistance with country systems.

D. Proposed Budget

55. Section under preparation

V. CONCLUSIONS

56. The report has shown that there is a need for ADB to adjust its organizational structure, business processes and procedures in order to provide more effective support to DMCs in managing their CD processes. The Action Plan will provide an operational basis for a sequenced and monitorable CD work program. 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 which the Region is facing. It will also provide opportunities for better targeting of CD investments and 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 achievement of the longer term goal of poverty reduction.

Outcome 1: Institutionalizing CD Focus in Country Programming and Operations			
Outputs	Activities	Indicators	Responsibility
1.1. Increased dialogue with DMCs on country-specific CD concepts and principles.	<p>Explain ADB's approach to CD and discuss approach to country specific CD policies and procedures adopted by DMcs. Assess DMC demand for an improved CD focus..</p> <p>Identify entry points and DMC focal points.</p> <p>Conduct awareness measures and trainings on CD for DMC focal pointes.</p> <p>Agree on country specific CD 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>3 awareness raising sessions prepared and conducted every year beginning in 2007.</p> <p>DMC specific CD concepts identified.</p>	RDs. With support from RSCG and SPRU on a selective basis.
1.2 Strengthened RD-wide results-based management system for CD objectives.	<p>Take stock of existing RD specific results-based management system for CD.</p> <p>Identify strength and weaknesses of RD's CD program and conduct gap analysis based on quality-at- entry criteria.</p> <p>Identify RD-wide CD objectives and performance targets.</p>	<p>RD specific results-based management system for CD analyzed by 2007.</p> <p>Performance analysis of 2005 and 2006 programs conducted by February 2007.</p> <p>Annual performance targets for CD identified on an annual basis beginning in 2007.</p>	RDs. With support from RSCG an SPRU.
1.3 More efficient and effective support for improved CD strategic focus in country development and/or poverty reduction strategies.	<p>Identify entry points based on DMC demand (cross-cutting, sector, local government).</p> <p>Support identification of strength and weaknesses with regard to critical sector and thematic capacities.</p> <p>Facilitate identification of CD priorities in national development strategies and sector and thematic roadmaps.</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 CD baseline assessment and gap analysis on request.</p> <p>Preparation of CD Action Plans facilitated on request.</p>	RDs. With support from RSCG and SPRU on a selective basis.

Outcome 1: Institutionalizing CD Focus in Country Programming and Operations			
Outputs	Activities	Indicators	Responsibility
1.4 Increased CD focus of CSPs based on quality-at-entry criteria.	<p>Review existing country development programs for quality of CD assessments and degree to which CD priorities have been identified.</p> <p>Align ADB country programs with country CD priorities.</p> <p>Identify CD focal points in Government and identify CD 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 CD components in CSPs.</p>	<p>All CSPs prepared from 2007 onwards meet quality-at-entry standards with regard to their CD components, such as (i) linkage with country strategies at various levels; (ii) adequacy of gap analysis in terms of substantive assessment of CD dimensions through establishment of baseline indicators and process (i.e. in terms of inclusiveness of relevant stakeholders); (iii) adequacy of CD strategy in terms of option identification, feasibility, organizational competence and comparative advantage of actors- partnerships; (iv) adequacy of CD performance monitoring system, i.e. performance targeting of CD results indicators, inclusiveness of process.</p>	<p>RDs with selective support from RSCG and SPRU.</p>
1.5 Increased CD focus of CD operations in priority sectors and themes based on quality-at-entry criteria.	<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 CD targets and routinely monitor progress.</p> <p>Take measures to maintain ownership and leadership of counterpart organization in various aspects of design and implementation, i.e. contracting of consultants.</p> <p>Strengthen process and systems orientation.</p> <p>Avoid setting up parallel systems.</p> <p>Strengthen country systems which are critical in order to strengthen alignment of ADB operations with country systems, i.e. strategic planning for poverty reduction, procurement, financial management, results-based management.</p>	<p>CD classified projects meet an increasing number of quality-at -entry criteria.</p>	<p>RDs and sector focal points supported by RSCG.</p>

Outcome 1: Institutionalizing CD Focus in Country Programming and Operations			
Outputs	Activities	Indicators	Responsibility
	<p>Increasingly engage recipient country service providers in CD related activities, such as organizational and institutional assessments, trainings, and endogenous monitoring of CD progress.</p> <p>Strengthen partnerships with other donors, in particular the UN system and bilateral donors.</p>		
1.6 Increased Resident Mission and Headquarter staff skills and incentives for CD.	<p>Decentralize staff to Resident Missions and increase number and CD skills of staff in Resident Missions, including national officers.</p> <p>Relax restrictions on average length of field missions for CD projects.</p> <p>Reduce the average number of changes of project officers on CD projects.</p> <p>Ensure adequate handover of projects to new project officers.</p> <p>Decrease emphasis on processing as compared to implementation and monitoring for CD projects.</p> <p>Monitor and reward CD performance of staff.</p> <p>Provide opportunities for staff to participate in CD learning and development and networking activities.</p>	<p>Percentage of staff assigned to Resident Missions in relation to total staff increases by 10% every year from 2007-2010.</p> <p>Average length of field missions on CD projects is sufficient to allow for adequate support to design, implementation and monitoring.</p> <p>Allow for maximum 1 change of project officers every 3 years.</p> <p>Project officers overlap for at least 2 weeks and personally meet relevant stakeholders to inform them about the upcoming changes. Handover notes provide all relevant information, including soft information on political economy issues etc.</p> <p>Average time spent on implementation and monitoring of CD projects increases as compared to processing time.</p> <p>Staff perceptions reflect emphasis placed by managers on CD performance. PDPs highlight CD competencies and achievements. CD performance has a positive impact on career development.</p> <p>CD learning and development are increasingly included in PDPs and participation in such programs increases by 10% from 2007 onwards.</p>	RDs, BPHR, RSCG
1.7 Increased experience with piloting new modalities and processes to support CD.	<p>Strengthen linkages between grant, TA and loan modalities.</p> <p>Pilot new modalities, such as CD funds.</p> <p>Engage in ADB-wide efforts to review modalities, i.e. in view of mainstreaming the JFPR 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 CD portfolio increases.</p> <p>2 pilots have been initiated by 2008.</p> <p>Strong RD participation in Working Group on CD Modalities to be established by 2008.</p>	RDs, RSDD, SPD

Outcome 2: Establishing Internal Support Systems for CD			
Outputs	Activities	Indicators	Responsibility
2.1 Effective ADB-wide leadership exercised in support of the proposed CD approach.	<p>Management Committee oversees CD progress and makes adjustments, where necessary.</p> <p>Board reviews and comments on mid-term review report.</p> <p>Management Committee makes full resourcing of the Action Plan a priority element in preparing the Work Program and Budget Frameworks and annual budgets.</p> <p>High Level Officials communicate ADB's CD approach in official speeches and include CD in policy dialogue with DMCs and global partnerships.</p>	<p>Management Committee meets regularly and minutes reflect an effective approach to assign and supervise responsibilities.</p> <p>Minutes of Board discussion of mid-term review are publicly available in 3 Q, 2009.</p> <p>CD 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 CD focus.</p>	<p>Board Management Committee SPD RSCG DER</p>
2.2 Improved human resource management for CD.	<p>Estimate staff resource and skill needs based on functional responsibilities.</p> <p>Define generic job descriptions for CD related tasks for sector and thematic CD staff and competency framework for cross-cutting CD.</p> <p>Conduct staff skills inventory against the competency framework.</p> <p>Identify and act on identified recruitment/redeployment needs.</p> <p>Ensure effective performance management of CD 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 CD work programs.</p> <p>Generic job descriptions and competency framework are provided by BPHR by December 2006.</p> <p>Skills inventory for CD conducted in 2007.</p> <p>CD specialists recruited or redeployed according to needs identified by departments.</p> <p>Staff perception that CD 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>	<p>BPHR, RDs, RSDD</p>
2.3 Improved CD 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 information system (PPMS) data and initiate reclassification where necessary.</p> <p>Summarize CD classification data on an annual basis.</p> <p>Provide thematic progress report on a bi-annual basis to management.</p> <p>Contribute CD aspects to sector and thematic bi-annual reports.</p>	<p>Improved consistency in CD outcome specification in project performance information system, and project planning documents.</p> <p>Annual CD reports meet quality standards.</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 CD priority sectors.</p>	<p>RDs, RSDD, DER</p>

Outcome 2: Establishing Internal Support Systems for CD			
Outputs	Activities	Indicators	Responsibility
	<p>Conduct mid-term review of implementation of Action Plan in 2009.</p> <p>Conduct external consultation as an input into final implementation review.</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>Reviews are based on the monitoring system provided in the Report and feed back into the rolling plan.</p> <p>Recommendations of final review respond to feedback provided during external consultation.</p> <p>Framework and Action Plan, bi-annual thematic reports, and review reports are made publicly available on CD website.</p>	
2.4 Increased demand-orientation and effectiveness of upstream technical CD support.	<p>Identify support needs.</p> <p>Design appropriate operational support measures (i.e. staff guidelines, tools, direct support).</p> <p>Develop CD quality-at-entry criteria for CSPs, sector roadmaps, TA and lending instruments.</p> <p>Establish feedback mechanisms.</p>	<p>Bi-annual reports reflect progress with regard to implementation of CD quality-at entry.</p> <p>Quality of tools is in line with international standards and meets demand.</p> <p>Quality-at-entry criteria have been developed, discussed and agreed on.</p> <p>Staff guidelines that spell out quality-at entry criteria for CD focused CSPs and projects are available by mid 2007.</p> <p>Positive feedback provided by Regional Departments and evidence of effective mechanisms to address concerns.</p>	RSCG
2.5 Improved corporate and regional mechanisms for learning from CD experience.	<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>	RSCG, focal points for components, ODs.
2.6 Effective internal and external knowledge sharing and coordination mechanism for CD.	<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 in 2006 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>	RSCG, SPD, DER (on external knowledge sharing only)
2.7 Enhanced CD focus of independent evaluations.	<p>Include special evaluation studies in OED's work program and increasingly base the studies on CD concepts and performance criteria.</p>	<p>2 OED studies a year focus on CD performance aspects.</p>	OED

PRELIMINARY DESIGN OF A KNOWLEDGE EXCHANGE AND LEARNING PROGRAM FOR CAPACITY DEVELOPMENT

1. The knowledge exchange and learning program for capacity development (CD) 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 DMCs alike. The program will enable the RDs to work with their clients on the joint development of more efficient and effective ways for ADB to provide support for CD 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 could 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) CD 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 RSCG will provide the 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. The appendix provides the main objective and some projects that could possibly be included. Further discussion will be needed with RDs, DMCs and development partners to validate this provisional list and new projects can 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 MTS II, but also the assumption that ADB will continue to address certain capacity weaknesses at country level (cross-cutting concerns). The components will be gradually phased in.

A. Improving CD Focus in ADB-Supported National Poverty Reduction Strategies and Sector and Thematic Strategies and Roadmaps

4. The main objective is to identify and explore ways of improving sector-specific CD 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/sector-specific CD concepts, sector CD strategies and results-based action plans, and CD 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 CSP preparation and review processes (Country Portfolio Review Missions and CSP Mid-Term Reviews) need to be analyzed and assisted to strengthen the CD focus.

5. The primary target group are country teams (including DMC representatives) that are in the early stages of preparing CSPs, sector focal points/Community of Practices in priority sectors, and OED staff working on sector and country program evaluations. So far, there is no systematic exchange on the preparation of sector roadmaps between these groups and there is need for cross-fertilization and consistency. The lead for supporting the preparation of results-

based CSPs is with the Strategic Planning and Results Unit (SPRU). SPRU is preparing a results-based CSP guideline that could be used to disseminate some initial guidance on processes and quality-at-entry criteria, including those related to CD focus of sector roadmaps.

B. Improving CD Focus in ADB-supported Programs and Projects

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

7. The main target groups are project teams (DMCs officials, private sector and civil society representatives, ADB staff and consultants) working on CD interventions, sector and thematic focal points of ADB priority interventions, and evaluation officers involved in evaluations analyzing the CD focus of projects. There is a special need for developing sector-specific CD approaches and sector focal points should take the lead. Support could be provided by RSCG, the Project Coordination and Procurement Division (in particular the Project Performance Monitoring Systems RETA 6256), and the NGO Center. BPHR has indicated readiness to support a Learning and Development Program for water sector mission leaders and DMC CD focal points (training on the job).

C. Developing Appropriate Modalities for Delivering CD Assistance

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

9. RDs 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 EC, will be establishing a Capacity Development Fund to operate at central, provincial and district level in support of CD 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 SARD and CDWG following the finalization of the Study on Capacity Development in South Asia 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 CD inputs on which to spend CDF resources. ADB's role will be to advise on this and to assist the country establish a CD strategy, with sector CD road maps. The incentive for the DMC to use the CDF efficiently will be a linking of progress made by the country/sector in implementing CD 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 donors and to recommend specific modalities to support a

stronger CD focus. The study should include a review of existing experience, such as the Japan Fund for Poverty Reduction (JPFR) and innovative World Bank modalities. The review of the JFPR was proposed by the Special Evaluation Study on Civil Society Involvement 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 and it is recommendable 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 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 operations as well as with the TA Reform Initiative led by SPD. 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 CD 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 different roles, such as (i) advocacy: upstream communication with decision makers (e.g. Government) with the objective of influencing policy and strategy decision making; (ii) mobilization: downstream communication with beneficiaries and local Government, including information, education, communication, community mobilization/organization; (iii) monitoring: contracted by the project to monitor project outputs and short-term impacts; (iv) delivery: contracted by the project to perform project related tasks, such 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 has been very limited. Another important area to look into is approaches for Resident Missions to effectively interact with civil society.

13. The knowledge exchange and learning program component should build on two recent studies (footnote 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 Governance and RETA 6170 on Institutionalizing Civil Society Participation to Create Local Pro-Poor Budgets. 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 Donor Assistance with Country Systems

14. The objective is to support DMCs strengthen specific country systems that are important to avoid that donors 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 donors that the systems meet quality criteria, such as PEFA criteria for financial management. Specific features of these pilots will be the use of existing organisation structures, management systems and processes on 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 SARD RETA on Mainstreaming Managing for Development Results in Support of Poverty Reduction in South Asia, the PHI TA 35166 on Harmonization and Managing for Results and the RETA on Decentralization in Social Sectors. 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 which was recently uploaded by the Results Unit in SPD. Similar mechanisms could be set up for financial management, procurement, and other critical country capacities.

APPENDIX 4: BIBLIOGRAPHY OF KEY BACKGROUND DOCUMENTS

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