

EXECUTIVE SUMMARY

Capacity development (CD) has been essential to the development agenda of the Lao People's Democratic Republic (Lao PDR) and an important part of assistance from the Asian Development Bank (ADB). This special evaluation study (SES) was designed to assess the effectiveness of different CD approaches, to identify factors that influenced the outcome of assistance, and to recommend improvements for future operations. The SES included loan and technical assistance (TA) projects in the agriculture, power, road transport, urban development, and water supply and sanitation (WSS) sectors that were approved between 1990 and mid-2003.

In the Lao PDR, CD is taking place in the context of limited human resources, a continuously changing organizational landscape, an only slowly reforming public administration, parallel processes of political and administrative decision making, and minimal financial resources for recurrent expenditure. These conditions illustrate the central need for developing capacities, but also constitute parameters that adversely affect the process. A further problem is the general absence of a definition and approach to CD. Initiatives lack structure and a systematic approach to developing capacities, which is reflected in the findings of results.

Dividing the CD assistance process into three phases—diagnostic, design, and implementation—the SES found that the process suffered several weaknesses. While a large number of staff in government agencies had met with diagnostic teams, their participation was limited to providing data rather than participating in an analytical process to identify key problems and relevant solutions. The quality of diagnostics varied across sectors and projects, but generally they lacked analytical depth and thus rather broad statements were made about capacity weaknesses and their causes. A CD strategy was developed for one sector (urban development), but otherwise assistance was reactive to evolving needs. CD objectives were not well articulated, and anticipated outcomes were not stated in terms that would allow focusing assistance and measuring outcomes. Implementation plans focused on project inputs, i.e., training and consultants, rather than on organizational changes that could be sustained. Implementation suffered from (i) lack of staff and resources; (ii) a mechanistic adoption of new systems without an understanding of their purpose, thus rendering systems ineffective; and (iii) a common, but ill-documented, practice of capacity substitution. The latter meant that CD resources were used in place of local ones, in the absence of which capacities cannot be developed or sustained.

To assess CD results, the SES faced the problem that baseline information was inadequate to assess impacts, and continuing assistance does not allow determination of whether and to what extent existing organizations can operate on their own. To address this problem, the SES reviewed planned against realized outputs and organized focus group discussions during which staff of organizations undertook self-assessments of existing capacities and weaknesses. The SES findings indicated that capacities had been developed in several areas, although without a consistent pattern or comprehensive coverage, and fall into two main areas: the operating environment of organizations (policy, legal, and budget frameworks, interaction with communities and the private sector, and interorganizational relationships), and organizational development (service delivery and internal management).

The overall policy framework for CD was addressed only in one early loan, which required setting up the department of public administration. Subsequent ADB assistance has been sector-focused, while the United Nations Development Programme (UNDP) assisted in broader public sector reforms. ADB assistance to the urban development sector contributed to establishing the policy and legal framework for newly created agencies with sole responsibility

for urban development and administration. This result was a substantial achievement, although assistance was required and provided by UNDP to further develop local government legislation. ADB made a similar positive contribution in the agriculture sector, where a policy framework was developed for consultation with development partners. In the agriculture, urban development, and WSS sectors, capacities were built for line agencies to interact better with communities, whether to engage them in greater participation or to undertake awareness campaigns. Building capacities in private sector participation was mixed. In the power sector, public-private partnerships have been effective in developing organizational capacities of power generating entities. However, not as much progress was made in the road, urban development, and WSS sectors, where contracting services out to the private sector is limited or nonexistent (urban development and WSS) and private construction companies face several problems (road sector). Interorganizational relationships were hardly ever considered in CD assistance, but some problems in this respect were experienced in the agriculture (forestry) and urban development sectors.

In developing organizational capacities, CD assistance did not include an explicit focus on clients and service provision that was articulated in terms of organizational performance criteria, such as quantity and quality of services, and number of clients served. Instead, project management functions became confused with service functions, and a preoccupation with projects prevailed that diverted attention from improving regular provision of services. No workload assessments or analysis of skill mix requirements were undertaken, which makes it difficult to verify the general perception, expressed by all agencies, of understaffing in terms of staff numbers and qualifications. Training courses were organized to meet specific needs, and the self-assessment of trainees indicated that their efficiency and efficacy increased, but performance data to corroborate such self-assessments do not exist. Infrastructure and technology improvements were made in the case of most projects. In terms of internal management, new organizations were set up in the urban development sector and provided with an organizational structure and strategic plans. Several other sectors received similar assistance. The preparation of strategic plans continues to receive assistance from ADB and other development partners, which implies that local capacities are insufficient to undertake these tasks without external support. Human resource management practices received no attention in CD assistance other than the preparation of human resource development plans for a select number of line agencies. These plans remained unimplemented for lack of funding.

While the different approaches used in each sector seemed relevant to and effective in their context, the overall impact of CD assistance was scattered. The high level of continuing CD assistance and the self-assessments of current strengths and weakness (undertaken as part of the evaluation) indicated that local organizations are not yet sufficiently developed to function without external assistance. Areas in which capacities were developed are not well documented, which impeded efforts to draw systematic lessons from the experience. Weak results can be explained as follows:

- (i) **Constraints.** Human resource weaknesses, staffing and remuneration policies and practices, and financial constraints on part of Lao PDR seriously affect the way in which CD assistance is perceived and used (mostly as capacity substitution). These circumstances affect the extent to which assistance can be effective and need to be addressed by the Government to achieve fundamental changes to CD assistance and its results.
- (ii) **Process.** Weak diagnostics meant that no clear understanding existed of the problems that needed to be addressed, nor was consensus and ownership built around the suggested solutions. The design of CD assistance suffered as a consequence: objectives were not articulated well and anticipated outcomes not

specified. As a result, implementation focused on delivering inputs and carrying out activities, often using project inputs to substitute for local resources rather than developing capacities.

- (iii) **Scope.** CD is often equated with training or provision of consultants' services. The lack of a framework, which recognizes CD needs in the operating environment of organizations and for organizational development, affected the approach and results that CD assistance has had. Individual CD activities were scattered rather than systematically structured and sequenced, which affected the extent to which ADB assistance had an impact on capacities for sector and public resource management. Fundamental issues of public sector management, including human resource development and financial management, were not addressed.

The evaluation suggested ADB to take a systematic approach to reviewing its approach to CD assistance. A working group on CD was created at the time the report was finalized and has taken up a number of recommendations made in the evaluation. Specifically, the working group will determine a definition and framework for ADB CD assistance, and define approaches and tools kits for putting these into practice. As such, the evaluation will have an organization-wide impact.

For Lao PDR, a number of recommendations were made to address systemic issues in the areas of financial and human resource management, review and adjust policies on the purpose of CD assistance (moving away from using it for capacity substitution), increase participation in diagnostic and design phases to increase ownership and commitment, and recognize the need for building service delivery capacities rather than focusing on project implementation alone.

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