

I. Background

The idea for this study stemmed from a considered view among senior staff of the South Asia Regional Department of the Asian Development Bank (ADB) that the positive results of ADB's capacity development (CD) interventions in the Asian subregion seemed disproportionately modest compared with the effort put into CD—the time spent and resources deployed. The perception was that “value for money” was not being obtained, as indeed is thought by many to be the case with ADB's CD portfolio in general. For example: “A consensus has been emerging from various studies conducted during the last decade that ADB's program is lacking efficiency and effectiveness with regard to achieving development goals. Beside factors such as insufficient performance orientation of aid allocation, weaknesses in capacity building are often advanced as reasons for the deficiencies” (ADB 2003c).

This is the first study of CD specifically in a South Asian context and takes advantage of the recent work by the Capacity Development Working Group (CDWG) on good CD practice. Thus, this study aimed to indicate how CD could be mainstreamed into the South Asia Regional Department's operations as a contribution to the wider CD mainstreaming initiative (ADB 2007).

The study builds on previous reviews of ADB's operations that are particularly relevant to CD and on the lessons of CD experience elsewhere. Within the last few years, ADB has made rapid advances, drawing on its own experience and that of the international development community in general. This work concerns the conceptual frameworks of CD (and its closely related theme of governance) and the derivation from them of appropriate operational interventions. Work on technical assistance (TA) reform and implementation of governance and anticorruption policies is also ongoing. Recent studies include the implementation of results-based approaches in ADB's operations and those of its client executing agencies (EAs) in developing member countries (DMCs), the sustainability of policy reforms in DMCs, and the management and effectiveness of

TA operations. The studies provide analytical concepts that reflect the latest thinking and empirically derived performance benchmarks against which past CD interventions can be assessed. The present study uses these tools to identify in the CD operations reviewed the factors that appear to be significantly associated with the success of outcomes and to explore the operational implications that follow from this analysis.

Capacity Development

Definition

Definitions of CD articulated by some international development agencies are very broad and encompass almost the whole concept of “development.” Thus, the United Nations Development Programme (UNDP) defines capacity as “the ability of individuals, institutions, and societies to identify their development needs, set objectives, and solve problems to achieve their goals in a sustainable manner” (Lopez and Theisohn 2003). The Organisation for Economic Co-operation and Development (OECD) defines capacity as “the ability of people, organizations and society as a whole to manage successfully their affairs” and defines capacity development as “the process whereby people, organizations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time” (OECD 2005c). A recent World Bank paper says the ultimate goal of capacity building “is to leave behind better skilled and oriented individuals, more responsive and effective institutions, and a better policy environment for pursuing development objectives” (WB 2004).

The implicit assumption is that higher levels of CD, reflecting greater reliance on the country's own abilities, will mean reduced dependency on external assistance. ADB has broadly defined CD as “. . . securing a country's ability to manage its own affairs,” and stated that “CD interventions will be primarily aimed at supporting processes through which national organizations

and groups become more capable of mobilizing and using resources to achieve agreed objectives on a sustainable basis” (ADB 2004c).

The emerging international consensus is that “capacity development” should denote something rather more than “capacity building,” which has been the more commonly used term until quite recently. Capacity building is thought to suggest an emphasis on using inputs to produce outputs, rather than on creating an environment that enables desirable outcomes. In particular, “capacity building” suggests starting from a zero base, whereas some level of capacity will almost invariably be present already. In practice, however, there is still quite a widespread tendency to use capacity building and CD interchangeably. “Institution building” or “institutional strengthening” are also widely used terms. Confusingly, “institution” has two principal meanings.

- First, it can refer to an organization, as it does when the term “institutional strengthening” is used to mean support for making a department, agency, or corporation better managed; more effective in delivering services; more efficient in controlling costs; etc.
- Second, it can refer to the formal and informal rules, including laws, regulations, and customs, that organize and govern the behavior of individuals and groups in society.

This report uses the second meaning for the term “institution,” and uses the term “organization” to describe government, corporate, and civil society entities.¹

The term “governance” is also widely used in the CD context. “Governance” relates to the second meaning of “institution,” being concerned particularly with such aspects as the accountability, effectiveness, efficiency, integrity, and transparency with which governments, companies, organizations, and other groups conduct their affairs. “Good governance implies the effective working of key institutions....Capacity building focuses on the public sector organizations, which ensure that key institutions work for society” (ADB 2001a). A more recent review of the implementation of ADB’s governance policies found that the term

meant different things to different people and in different countries (ADB 2005d). That report advocates “public sector management” as a better description of the type of governance work ADB undertakes.

CD means both the phenomenon itself and the process of helping it to happen. CDWG’s definition thus sees CD as “supporting processes through which national organizations and groups become more capable of mobilizing and using resources to achieve agreed objectives on a sustainable basis” (ADB 2005d). This view, with its focus on organizations and groups, is the basis of the approach the present study takes.

ADB’s Model of Capacity Development

Analytical Framework. The ADB model of CD, as formulated by CDWG, is based on an extensive review of the international CD literature and of ADB’s own experience. The model also reflects a high degree of consensus among “donors”² (including the multilateral development banks) and their partner developing countries, about what constitutes good practice. The consensus was consolidated at OECD’s Development Assistance Committee meetings in Paris in early 2005.³

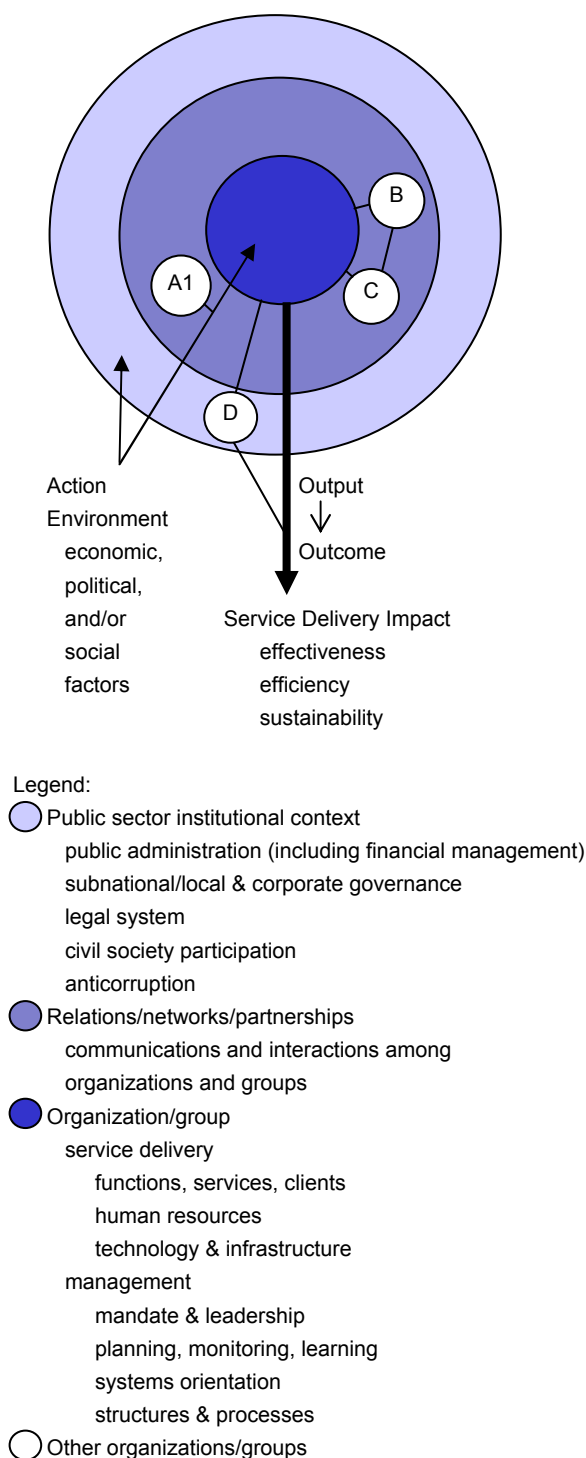
Figure 1 presents the analytical framework proposed by CDWG for formulating CD interventions. The figure shows CD as a system consisting of three main elements: the organization, interorganizational relations, and national institutions. In the center, reflecting CDWG’s focus on organizations and groups, is the organization. Organizations interact with each other through interorganizational relations (client relations, networks, and partnerships). The national

² Multilateral development banks are not, strictly speaking, “donors,” since much of their development assistance is provided on commercial or semicommercial terms; however, this term is generally used for bilateral and multilateral development agencies of all types.

³ There are some differences between the Asian Development Bank (ADB) model and that of other development agencies. For example, some agencies distinguish the three levels of intervention as institutional, organizational, and individual as opposed to ADB’s distinction of institutional, organizational, and interorganizational relationships.

¹ The exceptions are direct quotations from other works that use different meanings.

Figure 1: Framework for analysis of the Capacity Development situation



Sources: ADB 2007; Figure 1 (adapted from Grindle & Hilderbrand, 1997; ADB, Updated sector and theme classification: capacity development - Attachment 1; SST: LAO 2004-03; Figure 1A.

organizations function within an environment of national institutions that condition and modify the national organizations' performance and behavior, including their links to other organizations inside and outside the country.

The "action environment" in the figure refers to key aspects of a country's general economic situation (such as growth patterns, the labor market, international economic relations, private sector development), social situation (such as human resource development, social conflict, class structures, organization of civil society), and political situation (such as leadership support, mobilization of civil society, stability, legitimacy, and political institutions) and need to be taken into account when designing and implementing CD interventions. The key activities that should comprise the process of putting CD assistance into practice are

- diagnosis—the joint and participatory identification of problems and suggestion of solutions, and institutional assessment and stakeholder analysis;
- design—the joint and participatory arrival at a baseline assessment, and a prioritized, sequenced, and monitorable action plan; and
- implementation—the use of results-based management for sustainable impact.

Broadly, ADB's CD interventions are directed to any or all of these three components of the system. Much TA, for example, aims to improve organizational performance by raising the standards of an organization's service delivery and management.⁴ Improvement of service delivery typically concerns

- redefining the organization's functions (e.g., in terms of its operating priorities, streamlining services to make them more effective and efficient) and ensuring that the needs of the organization's clients are properly assessed and addressed;
- developing human resources (HR), (e.g., the acquisition of necessary skills and knowledge by the organization's staff, and personnel policies that provide appropriate incentives to staff to perform their jobs well); and/or

⁴ Such organization-focused assistance has often been confusingly referred to as "institutional strengthening."

- upgrading the technology available to the organization to convert its inputs to outputs and improving the adequacy of the infrastructure required to convey them to the organization and to its clients.

Management improvement within an organization covers a broad agenda, including, for example,

- providing the organization with a clearer mandate and raising the quality of its leadership;
- ensuring that the organization has adequate planning and operational capabilities; can effectively monitor its operations and their impact; and has structures, procedures, and an organizational culture that facilitates learning from experience;
- introducing or strengthening systems, including standard operating procedures, to underpin all the organization's activities; and
- developing sound structures for organizational governance (such as greater independence of the board directors from the owners) and sound processes for controlling the enterprise (such as results-based management).

Interventions in interorganizational relations are typically concerned with the effectiveness with which an organization establishes and uses relations with other partners (e.g., local government entities, nongovernment organizations [NGOs], and user groups) and its access to information sources, to improve the performance of its service delivery. The types of activity referred to in this paragraph essentially defined the scope of many of the CD interventions reviewed in this study.

ADB focuses most of its development assistance on the public sector. Thus, policy dialogues, loan covenants, or advisory TA are aimed at improving such aspects of the public sector environment as public administration; public financial management; subnational, local, and corporate governance; legislation, legal, and judicial processes; civil society participation in public decision making; and the reduction and elimination of corruption. These instruments are also used to support sector-specific restructuring and policy reform initiatives. This study covers several examples of such CD intervention. The institutional environment of organizations is affected by general economic, social, and political factors that are exogenous to

the CD process in that they cannot directly be targeted by CD interventions (e.g., international economic relations, government legitimacy, and social conflict). Such factors act directly on the organization and indirectly on it via the institutional environment.

The ADB model of CD provides a useful approach for understanding CD at the sector level and formulating CD interventions on a sector-wide basis. A sector comprises a number of key organizations and groups that operate within a sector-specific institutional environment as well as one that is common to all sectors. The line ministry that is ultimately responsible for sector performance is part of the institutional environment of sector organizations (e.g., water or power corporations).

Good CD Practice. UNDP published 10 “default principles for capacity development” (Lopez and Theisohn 2003). The principles have been widely quoted in the CD literature and have been given prominence in ADB’s publications on CD (ADB 2005a). ADB’s own guidelines to staff concerning good CD practice are based to a large extent on the UNDP principles (for example, see ADB 2004a). Significantly, the UNDP principles are exclusively concerned with managing a general process of change and not at all concerned with trying to define an optimum plan for change. This is because, as the third default principle states, there are no blueprints. CD has to be reinvented locally, drawing upon voluntary learning. ADB report on implementing ADB’s governance policies observes that “there is no specific institutional reform path that can be applied across the board for poverty reduction and ...country level institutions have to be developed based on local realities.” (ADB 2005d).

The crux of the CD challenge for the external partners involved is the balancing of measures to engender local ownership with actions that leverage institutional reforms. Inevitably, there is a tension between persuading DMC stakeholders that change will be in their best collective interest and encouraging them to take ownership of the proposition themselves.

Findings of Recent ADB Studies

This section highlights some important conclusions for CD operations, arising from a number of general studies (i.e., not country-, sector-, or project-specific) undertaken by ADB. Much of the section focuses on TA, reflecting ADB's historical reliance on this instrument for CD assistance.

Long Time Required for Assessment. A study for ADB (2001d) describes sector policy reforms as “second generation” reforms, characterized by incremental, long haul adjustments in contrast to the relatively immediate impact of macroeconomic reform measures. The study reviewed ADB's sector assistance over a 10-year period. It argued that policy reform needs to be treated as a dynamic process, a path to the desired future state, and not as a “one-time fix.”

Comprehensive (“holistic”) and Long-term Plans are Necessary. The tendency to focus on public sector organizations and project-specific interventions, instead of taking a holistic approach to CD, has been highlighted in ADB reports even quite recently (ADB 2001d and Narayanasuwami 2001). These reports concluded that the focus on individual advisory TAs should change to a focus on programs of sector reforms, i.e., embracing institutional, organizational, and interorganizational change. Constraints on the institutional environment at the DMC level may only be remedied through long-term, comprehensive CD programs jointly prepared and incrementally implemented (Narayanasuwami 2001).

The 2001 study noted that ADB has made few attempts at formulating broader country/sector CD plans, addressing the center, subnational, and community levels, and forging systematic long-term strategic alliances with CD-relevant organizations. Piecemeal interventions are unlikely to lead to sustainable outcomes. The 2002 review of TA advocated loan projects with comprehensive, long-term inputs for CD for one or more sectors within the same country. (However, the report went on to acknowledge that the generally inadequate concern with the continuity of policy issues and with adopting a longer term perspective prevalent up to that time was being substantially addressed by the country strategy and program process then being introduced (ADB 2002e). ADB's program of

Managing for Development Results also gives more emphasis to CD and governance. ADB's most recent review of governance proposes, as its first of 10 recommendations, that the institutional reforms/development requirements for a sector should be transferred into a separate, long-term program that is flexible and process oriented with milestones and performance measures (ADB 2005d).

Country Ownership is Essential. The 2001 study on the sustainability of policy reforms observed that the ownership of advisory TAs was limited or intermittent (ADB 2001d). Another report on CD produced in the same year noted that interventions remained donor driven and that DMCs lacked involvement in designing and implementing them. This included project preparation, despite decades of joint ADB–DMC experience, and was attributed to poor preparatory consultations with DMCs and poor efforts at skill transfer by consultants (Narayanasuwami 2001). The 2002 study of TA noted that insufficient country ownership was cited repeatedly in the TA evaluations. The need for ADB to align itself with DMC stakeholder interests and priorities during project preparation was emphasized. ADB's insistence (at that time) that it selected consultants was identified as an aggravating factor for DMCs.⁵

Sector road maps were cited as providing the means and opportunity for enhancing the role of DMCs in ensuring TA success. Thus ADB management decided to program and prioritize TA within the country strategy and program context, based on DMCs' TA requests. In all, the report listed 11 specific action points for enhancing country ownership of TA (ADB 2002e). The New Business Processes that were introduced were aimed at improved ownership, among other things (ADB 2003c).

The ownership issue continues to be stressed (ADB 2007). A recent ADB publication cites an overarching lesson learned from the international debate on CD as the need for donors “to facilitate and not drive CD efforts” (ADB 2005d) and an ADB

⁵ Estimating that international consultants cost, on average, almost 50% of technical assistance (TA) budgets, compared with 17% for domestic consultants, the study acknowledged this was a complex issue (ADB 2002e).

in-house presentation on TA reform also found it necessary to remind the audience that ADB's TA program is often criticized for being supply-driven rather than demand-driven.⁶

Prior Diagnostic Analysis is Critical. Two studies in 2001 concluded that ADB's CD interventions were not based on in-depth diagnosis of the situation beforehand. Training provision, for example, was typically ad hoc and did not arise from prior needs analysis. Institutional analysis was also usually inadequate, with institutional strengthening measures tending to be project add-ons instead of components of structured CD programs (ADB 2001d and Narayanasuwami 2001). The 2002 review of TA also emphasized the importance of thorough diagnostics before any TA was implemented for policy or institutional reform (ADB 2002e).

More recently, the need to take into account political economy factors has been emphasized in ADB. The importance of such factors is apparently acknowledged by staff but in practice these factors are rarely used to assess the political feasibility of reforms (ADB 2005d). This is a deficiency in diagnostic analysis that the "drivers of change" approach pioneered by the United Kingdom's Department for International Development (DfID) is intended to address.⁷

CD Interventions Should Be Goal-Oriented. Previous ADB approaches to TA design have been criticized for being too issue-based, instead of reflecting a clear programmatic or goal-oriented approach. In general greater accountability is required for the results of TAs (ADB 2001d). The 2002 TA review also emphasized that success should be measured by outcomes, such as

development goals and using monitorable indicators, and not by outputs, such as reports and seminars (ADB 2002e). This has been incorporated in ADB's standard operating procedures, to the extent that TA reports are required to include the TA framework matrix in the Managing for Development Results format.

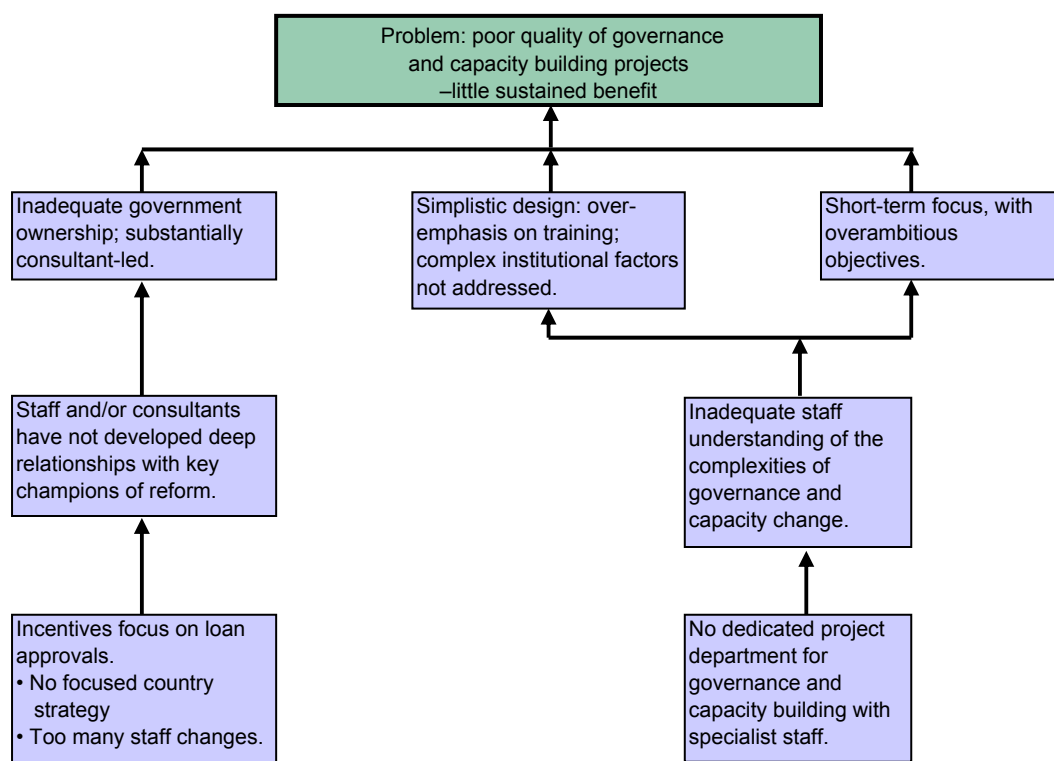
Change Management as the Key CD Activity. Some of the earlier studies pointed out that none of the TAs addressed issues relevant to change processes. Consequently, the need for policy advisory TAs to procure knowledge and services for change management was not fully appreciated. Few ADB staff had institutional analysis and development management skills and many consultants were basically output (report) oriented and less effective as change agents (ADB 2001d and Narayanasuwami 2001). The staffing issue is now being addressed, particularly following the policy decision to make CD a key theme in ADB operations. With regard to consultants, the terms of reference for CD-related interventions in recent years (including projects reviewed for this study) strongly imply that change management skills are required.

Resident Missions Have a Vital Role in CD. The need for focal points in DMCs where staff of executing agencies (EAs) can be trained in policy and project preparation, implementation, and evaluation has been identified, with the implication that the resident missions (RMs) could be used for this purpose. RMs have also been advocated as the primary source of supervision for CD activities (Narayanasuwami 2001). The 2002 TA review highlighted the critical importance of high quality supervision by both ADB and the EA concerned, with grant advisory TA attached to loans requiring the same care and attention as that given to stand-alone TA. ADB staff tended to give lower priority to implementation and supervision of TA than of loan projects. The 2002 RM policy noted the importance of the RM role in strengthening country ownership by enhancing communications between government agencies to ensure support for TA (ADB 2002e). There is also an increased role for RMs in strengthening ties with ADB's development partners to ensure continued dialogue with DMC stakeholders (ADB 2003c).

⁶ These points echo those made by the Network on Governance of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD): "capacity development is intimately linked to local ownership, long experience has shown that capacity development is something that people, organizations and societies must do for themselves" (OECD 2005a).

⁷ "Department for International Development (DfID) experience suggested that [institutional] change tends to happen when broad alliances drawn from across civil society, often supported by media attention and the private sector, and linked to reform elements within government, coalesce around an issue of political importance and exert pressure for effective change." (OECD 2005b).

Figure 2: Problem Tree Analysis for Governance and Capacity Building



Source: ADB. 2001. Diagnostic Review of the ADB—Governance and Capacity Building. Discussion paper of the Working Group on Review of the Organization.

Selectivity is Advisable in CD Operations.

The 2001 report on the sustainability of policy reforms declared that the allocation and skills mix of ADB staff were grossly inadequate for the CD agenda that ADB was attempting to address (ADB 2001d). Despite subsequent measures to tackle this problem, it has recently been highlighted again, albeit from a different perspective. The review of governance implementation concludes that ADB still needs to be more selective at the country level, with a few key sectors per DMC, and the lack of selectivity has prevented effective mainstreaming of the governance (and anticorruption) policies. Because of the many small TAs covering many subjects, regional departments have been unable to focus on CD. Bigger gains and greater strategic impact could be achieved by concentrating resources in fewer sectors and public management areas (ADB 2005d).

Overall Assessment of ADB's CD Capabilities

The problem tree analysis produced by a review of ADB's governance and capacity building work (Figure 2) summarized the weaknesses in ADB's CD capability at that time (Narayanasuwami 2001).⁸ The greater part of the CD experience reviewed in the present study occurred before 2001, and some of the three deficiencies listed in Figure 2 are reflected in CD performances included in the study sample. However, very few of the cases reviewed had all three deficiencies. This may help explain why the study sample consists mostly of relatively successful CD examples.

⁸ It is also a benchmark for assessing how far ADB's capacity development (CD) capability has improved since this report appeared. Clearly, progress has been made in terms of some of the issues shown, such as staff understanding of governance and capacity change and the establishment of specialized governance and CD staff. The greater challenges are probably the loan approval culture, country strategy issue, and staff changes.

The Study

Objective

This is the first study of CD specifically in a cross-country South Asian context. The study focuses on the impact of CD interventions on the capacity of key EAs in selected sectors to perform their functions satisfactorily. The objective is to identify ways of making future CD interventions in the subregion more demand-driven, effective, and efficient. The sample of interventions is drawn from the rural infrastructure and power sectors in three countries—Bangladesh, Nepal, and Sri Lanka—and from the capital markets subsector in Bangladesh and the livestock subsector in Nepal. The choice of sectors reflects the views of staff of ADB (particularly of RM staff) about which CD experiences were likely to be particularly instructive.

The study's first requirement was to establish what transpired in CD interventions by ADB (being mindful that these sectors were also receiving CD assistance from other sources) and why ADB and the DMCs took the course of action they did. This was achieved by learning from relevant project documents and interviewing ADB and EA staff. The second requirement was to assess the extent to which the interventions succeeded in developing capacity and to understand the reasons for this.

The capacity of a sector reflects the combination and interaction of the capacities of each major stakeholder in the sector. This study does not attempt such a broad assessment. Rather, it concentrates on the capacities of the EAs responsible for delivering services and for implementing the projects financed by the government, ADB, and other donors. These EAs have received by far the greater proportion of ADB's CD efforts to date. Therefore, the focus is mainly on the impact CD interventions have had on organizational performance, specifically that of the EAs. This analysis of organizational performance explicitly takes into account the EAs' institutional environment and the CD interventions directed at this, and the EAs' interorganizational relations and the CD interventions directed at these (Figure 1).

Analytical Approach

Evaluating ADB's Performance. The study looks at the CD interventions from the perspective of the three stages of the intervention process: diagnosis, design, and implementation. This approach to structuring the data is adopted in the evaluation by ADB's Operations Evaluation Department (OED) of CD assistance to the Lao People's Democratic Republic (ADB 2004e). Because this South Asia study also considers CD interventions over long periods, the strategy underlying successive interventions is considered. The main questions under the four headings to which this South Asia study sought to obtain answers (diagnosis, design, implementation, and strategy) are shown in Table 1.⁹ The study reviewed a large number of CD interventions in each sector and country, the great majority being TAs (either stand-alone or attached to investment projects) that provided consulting services and training, but also included some policy and program loans that had CD-related features in their conditionalities and covenants. Time precluded the systematic analysis of the quality of each intervention using the criteria in Table 1, but it was possible to form an overall impression for each sector and country and these are discussed in part 2, Capacity Development Experiences.

Each country and sector is specifically assessed for the extent to which ADB's CD performance appears to have measured up to accepted good practice. Table 2 shows the nine criteria of CD good practice that are used in this study. They represent a synthesis of UNDP's "default principles" for good CD practice and CD principles promulgated by CDWG (which are substantially modeled on the UNDP principles, but with a different emphasis and with some variations). The assessments are intended to apply to the set of CD interventions that occurred over quite long periods in all the sectors and countries in the sample and so capture elements of overall CD strategy involving multiple interventions over a long period as well as features of discrete, individual interventions.

⁹ The structure, headings, and content of Table 1 draw on the approach taken in the Lao People's Democratic Republic study (ADB 2004e) and the recommendations of other ADB publications (ADB 2004b, 2005d, and 2007), adapted and developed for this South Asia study.

Table 1: Assessment of the Quality of Capacity Development Interventions

Interventions	Criterion
Individual Interventions	
Diagnostic Stage	
CDWG: Diagnostics should be strongly participatory	
1 Organizational assessment	Was it undertaken by organization experts, using state-of-the-art analytical tools?
2 Competency assessment	Was it undertaken by human resources, training, and sector specialists?
3 Institutional assessment	Were knowledge and experience of the specific sector and country balanced with knowledge and experience of institutional change elsewhere that represented acceptable "imported" models for local adaptation? Were the view and requirements of the government balanced with those of other key stakeholders, particularly end users and beneficiaries of the services provided?
4 Stakeholder analysis	How were key stakeholders identified, consulted, and represented in the diagnostic process?
Design Stage	
CDWG: Design should have clear CD objectives to be achieved with specific resource inputs	
1 Objectives	Were these clear to all stakeholders, relevant to the conclusions of the diagnosis, and realistic in the circumstances?
2 Priorities for action	Did these properly reflect the objectives?
3 Activities selected	Did these centrally address the behavioral changes required of the organization?
4 Structures and systems to be used	Did these build on and/or strengthen existing structures/systems, or bypass/isolate them? Or, if the structural change was itself a major objective, were the designs of new structures/systems to be introduced based on relevant and proven experience elsewhere, and the feasibility of local application adequately addressed?
5 Instruments/modalities for change ^a	Was there a clear rationale (i.e., reflecting points 14) for the selection of intervention instruments and modalities?
6 Sustainability measures	Did the design take account of the need for project activities to be sustained after completion?
7 Change agents ^b	Was the role/scope of work, authority, responsibility, and resources to be assigned to key change agents appropriate and realistic and based on adequate assessment of their capacity to effect change or propose to test this in pilots?
8 Time and resources	Was the time frame proposed realistic and was the scale of CD inputs proposed adequate for the task?
Implementation Stage	
CDWG: Avoid preoccupation with project activities at the expense of managing organizational change	
1 Commitment	Were the levels of commitment to the intervention adequate (e.g., in terms of ADB follow-up dialogue and supervision, and the number, quality, and type of staff assigned by the EA)? Was this sustained for as long as required?
2 Effectiveness of change agents and activities	Were the change agents selected effective in promoting change and were the change activities, particularly training and learning-by-doing experiences, appropriate and relevant?
3 Change management efficiency	Did the organization manage the change process efficiently, particularly in creating/supporting, rewarding, and appropriately deploying staff who had acquired knowledge and skills? Was the learning process institutionalized? Was progress toward change objectives adequately monitored, were emerging lessons learned and was management able to modify the course of the project to improve performance accordingly?
Multiple Interventions: Strategy	
1 Explicit and programmed	Were the individual CD interventions integral components of an overall, medium-/long-term strategy that addressed (as necessary) the three CD categories of institutions, organizational, and interorganizational change?
2 Sequencing/phasing	Were the successive individual CD interventions introduced at the appropriate time and in the appropriate order, allowing organizational change to take proper account of institutional change?
3 Political economy	Was there evidence of rigorous attempts to understand the political economy of sector reform? Was there adequate recognition of the limitations (as well as of the potential) of ADB's assistance for this?

ADB=Asian Development Bank; CD=capacity development; CDWG=Capacity Development Working Group; EA=executing agency.

^a CD instruments include learning by doing, counterpart-consultant interaction, formal and informal training, organizational exchanges, and CD modalities are basically technical assistance, loans with conditions and covenants, and policy dialogue.

^b Most change agents used are consultants and executing agency staff trained for the purpose, but nongovernment and community-based organizations are also deployed for this purpose.

Sources: This study; ADB 2004c, 2005b and 2007.

Table 2: Good Capacity Development Practice—Individual and Multiple Interventions

Good Practice Feature	Description
Strong local ownership; local values are respected, self-esteem is fostered.	Key local stakeholders recognize that the project properly reflects their priorities and needs. Consequently, they are fully committed, ensuring the project's success. The project responds to the way things are done locally. It encourages the local contribution of ideas, knowledge, experience, and skills to project planning and implementation.
Suitable positive incentives are present.	Positive incentives and motivating factors generally for participation in the project are established. They are aligned with capacity development (CD) objectives, including those of good governance.
Use is made of existing capacities; external inputs are integrated with national priorities, processes, and systems.	Primary use is made of national expertise, national institutions and organizations are strengthened, and social and cultural capital is strengthened. External inputs are provided in response to demand, reflecting national needs and agendas. If national systems are not strong enough, they are reformed and strengthened rather than bypassed.
Imported models are adapted to local requirements and conditions.	"Blueprints" are avoided. Models that work elsewhere are adapted. The emphasis is on voluntary learning based on genuine commitment and interest, and recognition that knowledge is acquired not transferred.
Driver for change and reform leader present.	The project challenges mindsets, power differentials, and vested interests. It seeks the right balance between driving change and leading reforms that ADB considers to be in stakeholders' best interests and nurturing local ownership of the changes and reforms.
Sequencing is appropriate.	CD interventions are phased to ensure progressively better results and outcomes that are (1) sustainable in terms of the scope and speed of change of the organization's strengths, (2) compatible with the development of its institutional environment.
Processes are sound.	The primary objective is to achieve behavioral change in organizations and/or restructuring of sector organization. Results-based management is used for the change process, with strong focus on targets and measurement of progress, clear accountability, and a merit-based culture that encourages achievement of the organization's goals
Partnership and engagement are strong.	The project is grounded in sharing commitment to it among government, the private sector, nongovernment organizations, funding agencies, etc., and in harmonizing objectives and support processes. Engagement is sustained even in difficult circumstances
The project is accountable to beneficiaries.	The project firmly promotes transparency, stakeholder participation, and inclusive accountability, particularly to the ultimate beneficiaries.

The criteria selected respond to ADB's evaluations of its CD interventions in general. These evaluations have shown that its CD interventions need to be integrated more carefully into national poverty reduction and sector strategies and that good coordination with other partners (the private sector, other financing agencies, or NGOs) is critical. Other important findings are that (1) CD needs should be assessed more comprehensively; (2) sector-level CD interventions should carefully address institutional factors; (3) appropriate phasing and sequencing of CD outcomes, based on assessment of organizational capacity, is required; (4) too much emphasis on training and consultant inputs should be avoided; and (5) greater attention should be given to facilitating change management and organizational learning (ADB 2004a).

The study considers the effectiveness of CD interventions from all sources, not just ADB, in two ways: (1) on the basis of assessments of how far and in what respects sector capacity has improved, as given in project documents, particularly in TA and project and program completion and evaluation reports (though there are relatively few of the evaluation reports for the sample chosen); and (2) by asking ADB and EA staff, through interviews and questionnaires. The review thus sought to answer the questions posed in Table 1 and, to some extent, to provide indications of how far CD interventions had met the good practice criteria in Table 2. The main tools for assessing the good practice criteria were the interviews with EA and ADB staff and the questionnaire sent to EAs (Appendix 1). Finally, in a separate exercise, RM staff primarily responsible

Table 3: Assessment of the Executing Agencies' Capacities

No.	Indicator
1	Ability to formulate policy, devise strategy, and plan.
2	Ability to mobilize resources (knowledge, people, and funds).
3	Ability to prepare and implement projects and programs.
4	Ability to manage growth and development.
5	Ability to monitor, evaluate, and learn from experience.
6	Management's focus on increasing efficiency and/or reducing costs.
7	Management's focus on the end users, customers, clients, and beneficiaries of services provided.
8	Management's commitment to good governance (integrity, transparency, accountability).

for operations concerning a particular EA were asked to rate the capacity of this EA by assigning a score from 1 (very low) to 5 (very high) to each capacity indicator shown in Table 3. The indicators, which were formulated specifically for this South Asia study, are intended to reflect the dominant concerns about aspects of EA capacity expressed in project documents. RM staff members were also asked to say whether, in their opinion, the EA's capacity had improved or deteriorated during the last 10 years and whether this change had been substantial or relatively small.

Explaining the Results. The correlation between success in raising capacity levels and the quality of ADB assistance is strong, although in some cases ADB interventions were not the dominant source of CD assistance. The study attempts to identify the specific factors associated with success or failure by comparing sectors and countries.

The selection for this study of two sectors—rural infrastructure and power—in all three sample countries effectively allows for “control” of two important variables, one exogenous and one endogenous, in the analysis of EA CD. The first variable is the cluster of exogenous influences on an organization, including national institutions, society, culture, local values, and the like. These will be the same for EAs within any one country (ignoring ethnogeographic bias in the location of an EA's operations), so that differences in performance between the EAs cannot easily be attributed to the operating environment. Factors

internal to the organization or differences in the amount of external support for CD will be more relevant. The second variable that is effectively controlled in EA comparisons is the organization's primary mission, the answer to the question that is the starting point for any CD intervention: “development of capacity for what?” Provided the sector is reasonably closely defined, so that the EAs in it can be assumed to be doing a broadly similar job, the second variable—primarily mission—will be the same within any one sector across countries. This facilitates comparison of the EAs' internal strengths and weaknesses. When variation in these cannot fully explain differences in CD performance, then factors in the external environment are strongly indicated.

The isolation of factors that are external and internal to EAs, which has major implications for the design of CD interventions, is not possible for the capital market and livestock subsectors because the sample includes only single country examples of each. However, the two cases show key endogenous and exogenous factors influencing the CD of the EAs concerned and, consequently, allow assessment of the extent to which ADB's interventions were correctly targeted. An EA can control endogenous variables, but not exogenous ones. In the specific CD relationship between ADB and an EA, ADB staff assigned to projects involving the EA is an exogenous variable from the EA's standpoint, while EA staff assigned is an endogenous variable. Both parties frequently cite continuity of staff in the relationship as a factor conducive to successful CD.

ADB's contribution relative to development assistance from all external sources varied among the sample EAs. It was certainly critical in the cases of Power Grid Company of Bangladesh (PGCB) and Dhaka Electricity Supply Company (DESCO).¹⁰ It was probably significant in the Department of Livestock Services (DLS) in Nepal, but less significant in the National Water Supply and Drainage Board (NWSDB) in Sri Lanka. In the NWSDB and similar cases, ADB CD inputs were not necessarily the primary cause of EA CD outcomes, though they are likely to have been

¹⁰ Via the interventions directed at the parent organizations of these companies the Bangladesh Power Development Board (BPDB) and Dhaka Electricity Supply Authority (DESA).

important in reinforcing CD interventions from other sources.¹¹ In the case of the Local Government Engineering Department (LGED) in Bangladesh, although ADB is only one of many donors supporting this EA, ADB's intervention in the early 1990s resulted in a basic organizational overhaul of LGED and was fundamental to ensuring its subsequent successful increase in capacity.

Other things being equal, one would expect to find that "good" implementation of CD projects reflects "good" project design and that this in turn reflects "good" diagnosis of the CD situation. Thus, the cases where this favorable sequence has apparently been broken are particularly illuminating; for example, a well-implemented project despite poor project design or poor design despite good diagnosis.

Sources and Quality of Information. This study is based primarily on a perusal of ADB documents, supplemented by discussions with ADB staff at headquarters and in RMs and with EA staff during 2-day visits. Questionnaires were sent to most of the EAs¹² covered by the study to elicit their views on recent, specific ADB CD interventions. Short questionnaires were also sent to the RM project staff members concerned to obtain their assessments of EAs' present capacities.¹³

The sectors and countries reviewed, the periods covered, and the documents consulted are shown in Appendix 2. The projects include investment loans and TA projects. The EAs shown were

¹¹ Donors are increasingly working closely together and integrating their activities within an agreed common CD intervention program ("harmonization") and such programs are increasingly aligned with government programs.

¹² Two of the nine EAs covered by the study (Dhaka Electricity Supply Company [DESCO] and Power Grid Corporation of Bangladesh [PGCB]) had not received significant CD assistance from ADB within the last 10 years and so were not sent questionnaires. These organizations are included in the study sample because their formation as corporate entities in 1996 was a direct result of major ADB CD interventions in the Bangladesh power sector.

¹³ The Securities and Exchange Commission in Bangladesh was excluded because the nature of its capacity is quite different from that of the other EAs.

¹⁴ For example, the Ministry of Local Development was the EA for the *Institutional Strengthening of Rural Infrastructure Development* TA in Nepal, before the creation of the department of Local Infrastructure and Development of Agricultural Roads (DOLIDAR).

responsible for implementing most (but not all) of the projects examined and were visited during the course of this study.¹⁴

- The Bangladesh documents include six project completion reports (PCRs)/TA completion reports (TCRs), three in capital markets, two in rural infrastructure, and one in power, but only one OED evaluation.¹⁵
- The Nepal documents include three PCR/TCRs (rural infrastructure and livestock) and three OED evaluations (power and livestock), with two of each type of report produced within the last 10 years.
- The Sri Lanka documents include one PCR (ADB 2000b), but no OED evaluations.
- The power sector documents include one TCR and one OED evaluation.
- Of the 11 TAs/loans for which completion or evaluation reports were written within the last 10 years, 4 were rated as "partly successful," 5 as "generally successful," 1 as "successful," and 1 as "highly successful."

The information obtained about how capacity has changed over time is mostly subjective. The subjectivity is reflected in some cases by the selection of capacity indicators used by different sources. The subjectivity can be seen in project documents both cross-sectionally (different indicators used in different countries for EAs in the same sectors) and in changes over time in indicators used. The latter is more understandable because CD concepts of capacity have themselves been evolving. TA and loan reports (i.e., reports and recommendations of the president [RRPs]), which are frequently the only documents available containing assessments about capacity levels at points in time for the sample EAs, provide mixed signals concerning progress. On the one hand, justification for successive loans requires the EA's project implementation capacity to be presented in a favorable light; on the other hand, CD TA is frequently attached to loans on the grounds that the EA "needs further strengthening." This is the case with virtually all the loan projects that the sample EAs implemented.

¹⁵ ADB's Operations Evaluation Department (OED) evaluated ADB's power sector assistance program in Bangladesh, and assessed one of the TAs reviewed, TA 2004 Financial Management Upgrade of BPDB and DESA, that the technical assistance completion report had rated "generally successful" as a mixture of success and failure (ADB 1996f).

With regard to explanations for observed changes in capacity, there is greater room for interpretations of the historical record. Among ADB documented assessments, OED's are the most reliable because they are undertaken after sufficient time has elapsed for the full effects of interventions to have become apparent. TCRs and PCR's will naturally have a more optimistic view of project impact because they are written nearer in time to the delivery of project inputs than to the emergence of project outputs and the staff concerned will want their efforts to be vindicated. Thus a recent OED study has shown that whereas TCRs (for all types of TA, not only for CD) rated 82% of TA projects "successful" (including "highly" and "generally"), subsequent OED evaluations reduced this proportion to 57%.¹⁶ The sections in TA reports and RRP's concerning lessons learned from previous experience have also been used in this

study as the main source of assessments about the performance of most of the CD interventions considered.

The interviews with EA personnel were useful in indicating (1) the tenor and proximity of the relationship between the EAs and ADB, (2) their general views about how far the EA's capacity had improved in recent years, (3) where they thought more CD was needed, and (4) some pointers to aspects of ADB CD assistance that the EAs felt could be improved. However, the time available limited discussion of specific interventions and the number of officials who could be interviewed. All seven EAs that were given questionnaires completed and returned them.¹⁷ All the questionnaires sent to eight RM staff concerning their assessment of EA's existing capacities were answered.

¹⁶ ADB's Operations Evaluation Department, direct communication, June 2005.

¹⁷ Most of the responses are useful, the possible exception being the decision by one executing agency (EA) to report on a TA that had limited CD.