

II. Capacity Development Experience

Rural Infrastructure Sector

CD Interventions

ADB's CD-related interventions in rural infrastructure in Bangladesh and Nepal and in water supply and sanitation in Sri Lanka are summarized in a series of profiles in Appendix 3, Sections 1–3. Assessments of associated changes in the capacity of the EAs concerned, based on the verdicts in recent ADB project documents and discussions with EA and ADB staff, are also shown there.

In nearly all cases, the organization primarily responsible for service delivery in the sector acted as EA for the ADB-supported projects: LGED in Bangladesh; the Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR) in Nepal, and its parent, the Ministry of Local Development; and NWSDB in Sri Lanka. The interventions reviewed include all the ADB CD-related projects for the sector during 1988–2002 for Bangladesh, 1993–2002 for Sri Lanka, and 1996–2004 for Nepal, the years referring to ADB's approval dates of the earliest and latest projects. The interventions for which documents were reviewed for this study (Appendix 2) consist of project preparation TA and advisory TA (stand-alone and attached to loans) and investments. The person-months of consulting services as provided in the TA are shown in Appendix 4.

Changes in Sector Capacity

In the rural infrastructure projects in Bangladesh and Nepal, which mainly concern rural roads, sector capacity is essentially synonymous with the EA's (i.e., organizational) capacity. The relationship between the EA and its line ministry is also relevant. In one case it was a significant factor affecting EA CD. Thus, for LGED and DOLIDAR, external sector policy (institutional) influences appeared less significant in determining the EAs'

performances, probably because their tasks are basically to provide and maintain civil works. However, in the Sri Lanka case, where the rural infrastructure example is water supply and sanitation, the institutional factor is a critical determinant of sector capacity. This is because the EA (NWSDB) operates in markets that require regulation and are amenable to privatization. However, to date NWSDB has acted as owner, operator, and regulator in these markets. This is a conflict of interest that can only be resolved effectively by separating the three roles. The separation is the thrust of the sector policy reform program supported by ADB.

ADB and most other donors regard LGED and NWSDB as efficient at implementing projects. (ADB has described NWSDB as "one of the better performing water utilities in South Asia" [ADB 2000d]). LGED and NWSDB are deemed to be reliable and effective EAs and are in continual demand by donors, who want these EAs to absorb more investment. In LGED's case, there may some risk of overstressing its implementation capability. ADB and other donors also regard DOLIDAR as a relatively capable EA. RM staff give DOLIDAR, LGED, and NWSDB scores of 60%, 85%, and 63%, respectively, for present capacity and consider that capacity has substantially improved in all three EAs during the last 10 years or so. The capacity attributes scored lowest were attention to cost efficiency (two cases); ability to monitor, evaluate, and learn (one case); focus on beneficiaries (one case); and focus on governance (one case). Details are given in Appendix 5.

All three EAs are assessed as generally successful at implementing ADB-supported investment projects. However, these EAs continue to require high levels of CD support to manage the transformation from centralized public sector service providers in the traditional mold to enablers and facilitators of service provision at the local government and local community level. This is a considerable challenge, involving significant behavioral transformation by the EA and its staff, most of whom are engineers, and corresponding

changes in the roles, responsibilities, and technical and management capabilities of the local-level entities involved. LGED appears to be faring well in this respect, but DOLIDAR's effectiveness is weakened by ambiguities in the government's decentralization program and uncertainties about agency roles. NWSDB initially had difficulties with decentralization and the effective transfer of responsibility for operation and maintenance of water supply to local authorities took time. NWSDB has also had persistent problems with the quality of its financial management.

Assessment of ADB's CD interventions

ADB's approach to diagnosis, design, and implementation of CD interventions is assessed, and the overall strategy that guided this assistance. ADB's performance is then assessed against good CD practice.

Diagnostics. Previous reviews of ADB's CD assistance have drawn attention to the patchy quality of the diagnostics. CDWG heavily emphasized the paramount need for proper diagnosis of the CD situation before interventions are designed and implemented. Appendix 5 summarizes the main capacity issues (classified into the three CD categories) that ADB identified during its interventions in rural infrastructure in the three countries.

In relation to organizational and competency assessments (Table 1), terms of reference given to consultants often included diagnosis of EA capacity constraints as part of their work. However, only in LGED's case was diagnosis the primary purpose of a CD intervention, where the "MANCAPS" TA analyzed the strengths, weaknesses, opportunities, and risks of LGED (ADB 1992c). The analysis was a prelude to recommending and planning a fundamental overhaul of LGED in all respects: operations management, HR development, planning and financial management, monitoring and evaluation, and engineering management. (The overhaul proved to be very successful and assisted the emergence of a strong leader who was to have a long-lasting positive influence on the agency.) In Nepal, ADB had correctly diagnosed a lack of

functional focus in the Ministry of Local Development as limiting its effectiveness in developing rural infrastructure. The focus issue was remedied by supporting the creation of DOLIDAR in 1996, which has since expanded hugely. Especially in Nepal and Sri Lanka, NGOs have emerged as partners of the EAs in facilitating service provision. Such NGOs' organization and competency should be assessed.

Institutional assessments were usually made on the basis of the findings of sector-wide diagnostic components in ADB TAs and studies supported by other donors. Stakeholder analysis tended to be limited in the earlier years to centrally prepared estimates of the demand for service, as inputs to construction planning. Later, with government policy emphasizing decentralization of service provision and focusing more explicitly on poverty reduction (especially in Bangladesh and Nepal), more careful consideration had to be given to the manner in which local level entities were to be involved. The increasing importance attached by donors and governments alike to participatory assessments of project requirements (in all three countries) reinforced the need for such consideration. Consultants' terms of reference in the later TAs increasingly required some participatory stakeholder analysis.

The diagnostics component of ADB's CD interventions has been handled more systematically as time has gone by. The need to use professional experts in specialist areas also seems to be recognized to a greater extent now than before.

Design. In the earlier interventions, CD tended to be equated with strengthening EAs' project implementation capabilities. The requirement to address the need for decentralization of service provision and participatory project planning, introduced toward the end of the 1990s, caused intervention designers to recognize that change management was at the heart of the CD process. The CD goals became twofold: (1) transformation of the EAs' role, and (2) capacity building of government agencies and of civil society organizations at the local level. Since the EAs were now being called on to act as change agents at the local level, the need for appropriate structures and processes for ensuring efficient change

management in the EAs also had to be met. The main instrument for achieving the goals is large amounts of training for the staff and functionaries of all the organizations concerned. Given the relatively short duration of most training sessions (e.g., a maximum of 5 days for union councils in Bangladesh) and the participatory nature of the training mode, the time allowed in project designs is too short for capacity gains to be consolidated. The result has been repeated need for CD inputs for the same purpose in successive interventions.

Implementation. The EAs' commitment closely reflects their perceptions of project ownership (Table 2). Donor-supported projects fund the largest share of service provision in the rural infrastructure sector in all three countries. While investment projects are likely to receive the EAs' full support, this is not always the case with CD projects or CD components of projects. For example, staff may have difficulty finding sufficient time to work effectively alongside consultants (as cited in one or two interventions).

The work of consultants and the training provided was generally effective and valued by EAs. For the earlier years, the work and training related mainly to overcoming technical and engineering constraints on service delivery and internalizing the added capabilities. It is too soon to assess the efficacy of consulting services and training during the later years, when local level organization and social mobilization issues assumed greater prominence, but indications are reasonably encouraging. However, some NGO and private sector partners in projects may have not been up to the task required of them.¹⁸

Table 4 summarizes the EA's assessment of the quality of ADB's CD.¹⁹ On the basis of 24 questions, the EAs rated CD quality at +0.34 on a scale of -1 ("poor") through 0 ("average") to +1 ("good"). Diagnostics (4 questions) and design (11

Table 4: Executing Agencies' Ratings of their Capacity Development Experience with ADB

Sector and Agency No.	Diagnostic	Design	Implementation	Overall
Rural Infrastructure				
EA1	0.25	0.09	0.22	0.19
EA2	0.50	0.23	0.33	0.35
EA3	0.25	0.62	0.61	0.49
Average	0.33	0.31	0.39	0.34
Power				
EA4	(0.25)	(0.33)	0.00	(0.19)
EA5	0.00	0.07	0.04	0.04
Average	(0.13)	(0.13)	0.02	(0.08)
Capital Markets and Livestock				
EA6	0.00	0.73	0.22	0.32
EA7	0.25	0.59	0.39	0.41
Average	0.13	0.66	0.31	0.37
Overall Average	0.14	0.29	0.26	0.23

EA = executing agency; TA = technical assistance.

Notes:

1. Based on responses to questionnaires.
2. Scores: -1 = poor, 0 = average, +1 = good
3. Assessments by EAs 1, 2, 4, and 6 refer to one TA each; by EAs 3 and 7 to two TAs each, and by EA 5 to three TAs. EAs are not identified in order to protect confidentiality.
4. Assessments in the diagnostic stage are based on 4 questions; in the design, on 9 questions for power and 11 questions for the other sectors; and in implementation, on 8 questions for rural infrastructure and 9 questions for the other sectors.

questions) scored almost equally at +0.31 and +0.33, with implementation (9 questions) a little ahead at +0.39. The table shows substantial variation between the EAs' assessments. In general, the EAs rated the quality of ADB's CD in the power sector as "better than average" (two EAs) and "quite good" (one EA).

Strategy. Project documents give scant indication that the CD interventions reviewed represented integral parts of a carefully thought-out, long-term CD strategy. There were exceptions: for example (1) ADB's concern with achieving structural change and policy reform in Sri Lanka's water supply and sanitation sector, principally involving the establishment of a regulatory authority, independent tariff setting, and private sector participation; and (2) ADB's constant emphasis in its policy dialogues with the government in Nepal to change the attitude, especially that of DOLIDAR's

¹⁸ For a discussion of nongovernment organizations (NGOs) as development partners for ADB-supported projects, see ADB 2006.

¹⁹ Three of the questions in the "CD Implementation Stage" of the questionnaire were about the work environment of the EA in the context of its responsiveness to CD TA (Appendix 1, questions 2123). These do not directly reflect the quality of ADB's intervention.

district-level clients, to favor road maintenance, rather than construction of new roads. Otherwise, the targeting of individual CD interventions and their sequencing has tended to be reactive rather than proactive, addressing issues as they arose and being strongly influenced by problems encountered during project implementation.

Good CD Practice Considerations

Appendix 6 compares ADB's interventions in rural infrastructure in the three sample countries with good CD practice criteria, and shows that the interventions stand up reasonably well. The problem areas appear to be incentives and accountability.

The incentives issue is particularly hard to address because of habits that have been established over time in donor-recipient relationships, leading to expectations on both sides. The consensus among international development partners is that donors should not offer project-specific incentives for public sector agency staff if the incentives increase their compensation and so distort the EA staff allocation processes. However, two of the EAs evolved, for their staff, incentive systems that use the special opportunities provided by external support for projects, and it is hard to argue that there is anything fundamentally subversive about this. EAs that receive a lot of donor support are going to be regarded as offering promising career opportunities for staff. Further, ADB's recent review of project implementation units argues that DMC governments should introduce incentives for their staff to work in the units or with the project (ADB 2005e). The present study reveals that some of the TAs supporting one EA suffered from inadequate allocation of staff time to the consultant counterpart function.

The accountability issue is not so much about the failure of ADB's CD interventions to address incentives, but to achieve much progress with it. Benefit monitoring and evaluation is necessary (but not sufficient) for establishing adequate accountability by service providers to beneficiaries, but getting EAs (and DMCS governments in general) to take benefit monitoring and evaluation seriously continues to be a challenge.

Principal Findings

The main conclusions are as follows.

- **CD has been successful.** CD in rural infrastructure of these three countries has been relatively successful. The three primary EAs are competent at implementing the kinds of investment project ADB has traditionally supported.
- **Staff professionalism.** The HR base of the primary EAs consists largely of highly educated and professionally oriented engineers. In two cases, strong and inspiring leadership succeeded in carving out a degree of de facto unofficial autonomy for their government departments. In the third case the EA enjoyed semi-independent status anyway. This insulated the EAs to some extent from unsatisfactory public service HR policies and practices. The EAs' independence, combined with the professional challenge of the new social mobilization tasks (which many of the engineers are reported to relish) and the fringe benefits available with strong donor support, has resulted in the EAs' high level of commitment to the projects.
- **Institutional factors.** In Bangladesh and Nepal, no significant institutional reforms were required to increase efficiency. The most significant institutional factor was decentralization, but this fitted naturally with LGED's and DOLIDAR's mandates of providing infrastructure at the local level. However, substantial sector institutional issues in Sri Lanka (water supply regulation, independent tariff setting, and corporate private sector participation) make the CD agenda more difficult and complicate the task of improving NWSDB's effectiveness as an organization.
- **ADB's client orientation.** ADB's relationships with the primary EAs have been constructive, with mutual trust developing over time. The RMs and their strengthening from 1999 have undoubtedly facilitated the relationship. The EAs considered ADB to be a good partner, prepared to be pragmatic and flexible with project design and implementation

if needed due to changing circumstances. The EAs considered some other agenda-driven partners less flexible. This focus on the needs of the client should be maintained as ADB pursues its thematic priorities.

- **Good practice.** Overall, ADB's CD-related interventions have conformed well to currently accepted best CD practices, and the conformity has improved over time. Nonconformity to one or other of the nine best practice criteria can be found in most individual interventions.

Issues

Five significant issues emerged.

- **Continued CD inputs.** TA CD inputs (predominantly consulting services and training) in this sector have not declined over time. This is partly because governments' sector strategies, supported by ADB, require EAs to move from centralized infrastructure providers to decentralized enablers and facilitators of provision at the local level. This (1) requires assistance with learning how to operate in the new role, including helping the EA build capacity in local level stakeholders; and (2) may also mean increased outsourcing of functions to the private and civil society sectors—i.e., deliberate capacity substitution.²⁰ However, some of the TA inputs attached to loans may have been provided to ensure timely loan processing—i.e., a form of “insurance” on ADB's part and not genuine CD. If timely delivery of project outputs is a critical requirement (e.g., due to urgent needs of deprived beneficiaries), TA may be an appropriate way of ensuring that this need is met, but it should be recognized for

²⁰ Capacity substitution typically occurs when the skills and knowledge of consultants provided under donor-funded TA are used solely to ensure successful project execution with no provision made for the consultants to assist EA staff to acquire these skills and knowledge for themselves. This may occasionally be the purpose intended, as with emergency assistance where speed and efficiency are paramount, but more typically capacity substitution is the unintended consequence of CD TA that has been poorly designed or implemented.

what it is and distinguished as such in the design of interventions.

- **Lack of overall strategy.** ADB's strategies for CD in the sector, such as they were, evolved in an essentially reactive way to problems emerging with project implementation. This tended to result in repeated doses of the same CD treatment for EAs to address the same perceived capacity deficiencies (e.g., weak financial management in NWSDB and lack of community interaction skills among LGED staff). This incremental approach to increasing capacity, whereby shortfalls in the CD achievements of one intervention are readdressed by its successor, actually appears to have been reasonably effective. However, it might have been more efficient if the objectives per intervention had been more realistic (a longer time and/or more CD resource inputs).
- **Pace of change.** In Nepal particularly, and to a lesser extent in Bangladesh, the required pace of change in the collective mind-set (attitudes of people in the EAs, local government bodies, the local private sector, and even NGOs) is rapid. The change is being pushed along by large inputs of consulting time, much of it for training. Whether enough elapsed time is being allowed for the learning and exposure to new ideas to consolidate into permanent behavior changes is questionable.²¹ The experience with the Rural Infrastructure Development Project (RIDP) in Nepal suggests that the Ministry of Local Development/DOLIDAR had been over-stretched at the time of implementation, since many of the problems reflected lack of attention to quality of work and inadequate monitoring and reporting. This may explain some of the increased TA input in the follow-on Decentralized Rural Infrastructure and Livelihoods Project (DRILP), although the picture is obscured by (a) the greater size of DRILP (18 districts, including some of the poorest and most conflict-affected, compared

²¹ One of the lessons of the Rural Infrastructure Development Project in Nepal was the need to allow a year's preparation at the community level before starting on the physical activities of a subproject.

with only 3 districts in RIDP); and (b) the aim of outsourcing more of DOLIDAR's work.

- **Implementation capacity.** DRILP is much more ambitious than RIDP in terms of the objectives for local community participation and the transformation of DOLIDAR. Doubtless the need to “incorporate at the project level ADB policies on public–private partnership, anticorruption, and good governance” has much to do with the depth and breadth of proposed interventions in local economies and societies (ADB 2004d, para. 11). Heavy reliance is placed on NGOs as social mobilizers, despite their acknowledged weaknesses. There is some danger that NGOs may be regarded as a panacea for intractable issues of inequalities of participation and representation in economic activity and access to resources among social groups. Local NGO staff will also be part of the district project office, which might raise issues of accountability for project management.
- **Short-term training.** Large training programs based on relatively short courses at the local level are a prominent feature of recent CD interventions in Bangladesh and Nepal. They will provide a degree of exposure to the new concepts being promoted and some indication of the new roles and responsibilities that are to be taken on. While these programs respond admirably to the stakeholder participation requirements of good CD practice, they may have to be repeated and extended to sustain local level management of infrastructure development. Basic project management skills are needed at all levels.

Power Sector

CD Interventions

ADB has been by far the largest single donor to the Bangladesh power sector and has led external agencies in promoting sector restructuring and policy reform. “Over the past 30 years, ADB’s consistent and comprehensive support for Bangladesh’s power sector has set it apart from other development partners” (ADB 2003h, 34). This study focuses on interventions implemented by two

EAs: the Power Grid Corporation of Bangladesh (PGCB) and the Dhaka Electricity Supply Company (DESCO). Both were created in 1996 as a part of the sector restructuring and policy reform process. The review period for this study is 1993–2003, the years of ADB’s approval dates of the earliest and latest projects. ADB’s CD-related interventions in the power sectors in Bangladesh, Nepal, and Sri Lanka and assessments of associated changes in the capacity of the EAs are summarized in Appendix 3, Sections 4–6.

Although Nepal has several small independent power producers, the sector is dominated by the Nepal Electricity Authority (NEA). Sri Lanka has five power entities: the Ceylon Electricity Board (CEB); its subsidiary, Lanka Electricity Company (LECO); and three independent power producers. At the end of the review period CEB was responsible for 90% of generation, all transmission, and distribution to about 85% of all customers. The periods reviewed are 1990–2005 (Nepal) and 1998–2003 (Sri Lanka).

The interventions for which documents were reviewed for this study (Appendix 2) consist of project preparatory and advisory TA (stand-alone and attached), investments (project loans), and budgetary support (program loans). Appendix 4 lists the person-months of consulting services provided.

Changes in Sector Capacity

The power sector has well-defined markets in which end users and consumers purchase electricity for a price. Thus, sector capacity depends as much on how well these markets function (competition and regulation) as on the ability of EAs to implement projects and provide services. Power sector capacity thus has a significant institutional as well as organizational dimension to it, much more than does the provision of roads. (Water supply is similar to power in terms of the relative importance of institutions and organizations).

In Bangladesh, much was achieved during the period reviewed in terms of sector restructuring and policy reform: The TA attached to the highly successful Rural Electrification Project (1995)

introduced the principles of soliciting independent power producers with power purchase agreements through competitive bidding and created sustainable capacity in the sector for soliciting further investment in private power generation.

The Ninth Power Project (ADB 1996b) began corporatizing the Bangladesh Power Development Board (BPDB) and Dhaka Electricity Supply Authority (DESA) with the creation of PGCB and DESCO, and the West Zone Power System Development Project (2001) created another new company. By 2001, the government, on its own initiative, had started rationalizing retail electricity tariffs. Progress has continued, with further corporatization, the enactment of the Energy Regulatory Commission Bill, and the recruitment of members for the commission.

However, financial and operational performance in BPDB and DESA has shown little sustained improvement (poor accounting practices, low billing collection rates, and high system losses) despite corrective interventions by ADB and others. This is in contrast to the considerably better performance in the corporatized PGCB (from BPDB) and DESCO (from DESA), the Rural Power Company, and the rural cooperatives. Even more conspicuous a failure is shown by the customers' continued high level of dissatisfaction with the quality of power supplies. Sector capacity has improved considerably in the last 10 years and, crucially, the restructuring and reform process is probably now irreversible despite union opposition and public resistance to tariff increases; however, much remains to be done.

In Nepal, ADB considers NEA's operational performance to be substandard, with high system losses (up to 23%), poor quality power supply, and a deteriorating financial situation. Little has changed in the last 10 years. This is despite all the external support to correct technical deficiencies, the pressure on government to increase tariffs, and a recent initiative by NEA to unbundle despite the government's slow acceptance of the principles of sector restructuring and policy reform.²²

²² This situation has since improved, with the government reported as having given an unambiguous commitment to unbundle National Electricity Authority (NEA) and (initially) create an independent regulator and an autonomous operator of the transmission and dispatch system.

Government continues to dominate NEA's board of directors.

Although the power projects financed by ADB and other donors in Sri Lanka have generally been successful in technical terms, in 2002 ADB criticized CEB for being run more like a government department than an autonomous corporation, lacking clear objectives, and not having an independent or effective board. ADB also noted that CEB suffered from procurement and HR problems due to public service regulations, lacked management accountability for results, and was poorly focused on customer service. CEB's financial position was "cause for alarm." CEB blames government policy for many of its problems, but has weaknesses with internal rather than external causes. The most serious internal weakness is accounting and financial management.

RM staff members give DESCO, PGCB, CEB, and NEA scores of 90%, 90%, 60%, and 59%, respectively, for present capacity.²³ Capacity during the last 10 years or so has improved substantially in DESCO and PGCB and to a small extent in NEA, but has deteriorated to a small extent in CEB. The capacity attributes scored lowest were focus on governance (two cases), resource mobilization (one case), and focus on beneficiaries (one case). Details are given in Appendix 5. In their questionnaire responses, the EAs in Nepal and Sri Lanka both ranked operating efficiency in second place (out of a field of eight) as being the most improved area during the last 10 years. Strategy and planning improvements were ranked first by one of these EAs and staff development by the other.²⁴

Assessment of ADB's CD Interventions

Diagnostics. Appendix 6 summarizes the main capacity issues ADB identified during its interventions in the power sector in the three

²³ The lowest possible score is 20% and the highest 100%.

²⁴ The eight areas were strategy and planning; operating efficiency; financial management; staff development; number of end users, customers, clients/beneficiaries served; scope, quality, and reliability of services provided; governance; and accountability to stakeholders (Appendix 1, question 21).

countries. The diagnosis and the prescription were very similar across the countries. Monolithic government-owned power entities were operating in uncompetitive environments, were heavily indirectly subsidized, lacked commercial orientation, and were poorly focused on the needs of their customers. Given the perceived stultifying effects of public service terms and conditions of employment on management and staff performance, the answer was to (1) unbundle the umbrella agencies into their constituent market segments (generation, transmission, and distribution); and (2) where necessary, break out new corporate entities to deliver these services as the first step toward privatization. At the same time, independent bodies needed to be established to regulate the sector and, in particular, to set tariffs on the basis of rational (i.e., nonpolitical) considerations.

Organizational and competency assessments (Table 1) appear to have been done mainly by ADB staff and consultants on an ad hoc basis as emerging issues and problems indicated weaknesses in the power entities. For example, in 1990 poor financial performance in NEA was traced, in part, to weak consumer accounting and billing systems and a TA was then implemented to remedy this (only partly successfully). The same approach was applied to BPDB and DESA in 1993 for a similar purpose, the modernizing of financial management and accounting systems, again only with partial success.

Institutional assessments, in contrast, were much more thorough and undertaken systematically by sector master plans. All the assessments saw sector restructuring and policy reform as paramount to achieving sustainable development in the long term, i.e., ultimately self-financing through private investment and commercial borrowing. Consultants experienced with utility sector restructuring/reform in other countries were asked to set out the options for governments' consideration. Stakeholder analysis tended to be undertaken at the sector and household consumer levels. Restructuring/reform proposals required consultation (often in the form of workshops and seminars organized by consultants) with other government agencies, other donors, user/consumer representatives, industry suppliers, prospective independent power producers, and so

on, before specific plans were finalized. Public hearings were also held. These events were the main source of information about stakeholders' positions on issues and options. At the household level, a number of formal surveys of electricity consumers were carried out in order to establish key household characteristics that related to the way people used and required electricity.

Design. With ADB's power sector agenda in Bangladesh firmly focused on restructuring and policy reform, much of the CD intervention provided consulting services for establishing new corporate entities. This involved activities such as valuing assets, organizing transfers of assets and staff, formulating personnel policies, drawing up financing plans, and implementing new financial and management information systems. The same approach was taken in Sri Lanka in 2002 to help unbundle CEB and LECO into three generation companies, a transmission company with two subsidiaries, and four distribution companies, and to establish the independent regulatory commission. In Nepal, where corporatization was progressing more slowly, NEA was to be overhauled rather than new companies created. The TA consultants' terms of reference were very proactive, almost intrusive, in terms of their instructed role as change agents in pushing through new performance incentives, procedures for merit-based promotion, replacement of weak managers, raising of salaries to private sector levels, and the like.²⁵

Once the new companies were operating, ADB sought to further their development in both Bangladesh and Sri Lanka by providing program loans in parallel to project loans for physical power infrastructure development and to retire or reduce inherited debts and other liabilities. For DESCO and PGCB, project loan covenants relating to financial ratios in the management accounts were also used to ensure that the government kept its commitments to support the new entities.

The two "institutional strengthening" interventions in Nepal in 2000 and 2004 were assessed as

²⁵ This TA, Management Reforms and Efficiency Improvements for the NEA, approved by ADB in December 2000, was never implemented because it was found to duplicate initiatives supported by the World Bank.

requiring substantially fewer person-months of inputs than the sector restructuring/reform interventions (unbundling, corporatization, and regulation) in Bangladesh and Sri Lanka in 19982002 (Appendix 4).

Implementation. In Bangladesh, DESCO and PGCB have been successfully launched and subsequently operated as companies with greater management autonomy (as is the case with most of the other successfully corporatized power entities). However, there are some disquieting indications now that government is seeking to claw back influence and reduce the companies' independence. Neither DESCO nor PGCB has had any substantial CD inputs from ADB since their formation nearly 10 years ago. Meanwhile, despite the Financial Management Upgrade TA (1994–1996) for BPDB and DESA and the resulting computerization of their systems, these agencies have “fallen progressively further behind good commercial practice in accounting and billing in the last 10 years” (ADB 2003h, 64). This is in contrast to the experience of DESCO and the rural economic cooperatives.

In Nepal and Sri Lanka, the slower pace of institutional reform in the power sector has been reflected in the continuing operational and financial problems of NEA and CEB, despite various CD interventions. In Nepal, it has proved particularly difficult to (1) neutralize the negative effects of the public service culture on staff performance at NEA, despite its excellent engineers with high technical capabilities; and (2) prevent government from dominating the Board. In Sri Lanka, union opposition to unbundling, which is seen (correctly) as the beginning of a privatization process, has been strong. Some unions accuse the government of forcing CEB into a debt trap by blocking its generation plans and failing to raise tariffs, arguing that corporate restructuring is not the solution.²⁶

EA's Assessment. Table 4 summarizes the assessment by the power sector EAs in Nepal and Sri Lanka of the quality of ADB's CD. (DESCO and PGBC were omitted because they had not received direct CD assistance from ADB since

1996.) On the basis of 24 questions, their overall positioning of CD quality was -0.19 on the scale from -1 (“poor”) through 0 (“average”) to +1 (“good”). Diagnostics and design each scored -0.13, with implementation a little ahead at +0.02. The table shows some variation between the EAs' assessments. Thus, the quality of ADB's CD in this sector is assessed as “average” by one EA and “a bit worse than average” by one EA.

Strategy. The OED report on the Bangladesh power sector characterizes ADB's strategy as piloting change and learning by doing (ADB 2003h). The report notes that although there has been no detailed longer term plan and ADB has not sought commitments to reform beyond short-term specific steps, the changes that have occurred accorded with reform principles agreed between ADB and the government (such as corporatization, promoting competition, and increasing private sector participation). While some of the CD interventions were clearly problem-focused, most were strategic in that they were essential to facilitating the short-term specific steps that had to be taken. The RRP for the Power Sector Development Program contains a sector reform road map that includes a substantial number of CD milestones, such as “salaries and wages made competitive,” “work culture improved,” and “delegation of powers to the management” (ADB 2003g). All the CD milestones marked for the 20052010 period are extensions of historical achievements rather than new or hitherto unattained objectives. How much this road map represents rationalization after the event or an update of earlier planning/strategy documents is not known.

ADB adopted essentially similar strategies for the power sector in Nepal and Sri Lanka, but the slower progress of restructuring/reform obscured their direction at times. The absence of corporatization initiatives blunted the power of CD intervention to demonstrate the correctness of strategy by successful examples. At the end of 2004, the Government of Nepal agreed in principle to the road map that emerged from the Power Sector Reforms TA. This envisages unbundling NEA into four corporate entities and reform of NEA's board. The proposed unbundling mirrors NEA's own internal disaggregation into business units. NEA said that the World Bank supports this initiative, whereas several donors are reportedly skeptical of

²⁶ On the other hand, the engineering unions recognize the need for efficiency improvements in NEA, so the overall picture of public support for sector reform is complex.

its usefulness. NEA would at least like them to review the progress to date objectively before seeking to impose their own versions. NEA appreciates ADB's tacit acceptance of NEA's proposal. In Sri Lanka, further progress with sector restructuring/reform agreed with the previous administration is on hold while the present government considers its options.

Good CD Practice Considerations

ADB's interventions in the power sector in the three sample countries are compared with good CD practice criteria in Appendix 7. While the interventions in Bangladesh stand up reasonably well, those in Nepal and Sri Lanka appear to have been less satisfactory. The CD interventions did not always induce sufficient local ownership of the projects. In Sri Lanka, this seems to be related to problems with the use of existing capacities and integration of external inputs, particularly consultants, with the EA's processes and systems. NEA finds it easier to assume ownership of ADB-supported CD projects than does its line ministry. This doubtless reflects NEA management's own desire for more autonomy, whereas the government wants to retain its grip on the agency. Nevertheless, ADB's engagement with the power sector in all three countries is valued by their governments and EAs and by the other main partners. This is particularly so in Bangladesh where ADB has led external support for investment in the power sector, despite setbacks and disappointments for its reforming mission from time to time. Persistence, patience, and flexibility have paid off. Why Nepal and Sri Lanka have proved less tractable is unclear and the power EAs themselves in Nepal and Sri Lanka rate the quality of ADB's CD effort rather lower than do the rural infrastructure EAs in these countries.

Principal Findings and Issues

The main findings and issues are as follows.

- **Strategy: unbundled, corporatize, privatize.** Power sector capacity has significant institutional and organizational dimensions to it and ADB's CD strategy for the power sector has been essentially the same in

all three countries. The strategy is based on the premise, supported by international experience, that state-controlled power entities that are responsible for generation, transmission, and distribution are seldom cost efficient. With the government setting electricity tariffs, the sector incurs financial losses and is unattractive to private investors.

The sector restructuring and policy reform model that ADB has adopted requires unbundling the power entities into their separate components and establishing them as competitive commercial enterprises while establishing an independent regulatory and tariff-setting authority and encouraging private sector participation. As the RRP for Power Sector Reform in Sri Lanka noted, investments alone will not yield the desired results (ADB 2003g).

ADB has had greater success in persuading governments to implement restructuring in Bangladesh than in the other two countries. It is tempting to attribute this to ADB's dominant position among external donors in the Bangladesh power sector and the demonstration of its commitment by staying engaged when other donors withdrew or threatened to do so because of governance failings (e.g., falsified system loss figures).²⁷ On the other hand, ADB has been equally patient in the railway subsector in Bangladesh, but with far less to show for it. This perhaps demonstrates the importance of having a proven model of successful CD to apply in a critically important sector. Competition and privatization clearly reduce power supply costs in the longer run but the international experience with railways is much less conclusive (and power shortages cause much more economic disruption and public discontent than do late or slow trains).

²⁷ Thus, when reporting in 1999 on DfID's opinion that DESA should not be given more assistance until it had achieved targeted performance levels, ADB stated that "the ultimate objective is to improve sector efficiencies without major disruptions in electricity service and without any political embarrassment to the Government that could dilute its commitment to reform" (ADB 1999c, para.28).

- **Entrenched attitudes.** Bureaucratic government departments are ill-equipped to manage market-oriented businesses such as power supply. The impact of organization-level CD interventions aimed at improving management efficiency in such departments has proven difficult to sustain. This seems to apply particularly to accounting and financial management. The World Bank, for example, has provided significant financing in this area to NEA, without much success. To prize the power entities out of government control and be able to jettison public service practices, institutional CD intervention is a prerequisite on the organizational front. In DESA and PBCB, the act of corporatization undoubtedly created the conditions for enterprising management and staff to have the incentive to improve efficiency. The sequencing of CD for best effect is clear.
 - **Expert help also requires government support.** The often-maligned instrument of TA proved its effectiveness in situations when the client genuinely lacked expertise and experience in the field concerned. This was the case with unbundling and corporatization in the power sector and particularly so with regard to creating regulatory bodies and the solicitation of private participation. However, even when expert help is essential, if the government is against the restructuring/reform model, then the intervention alone will have limited impact. This has been the case with some administrations in Nepal and Sri Lanka.
 - **Government backing needed.** ADB has achieved more progress with power sector CD in some countries than others, in terms of the political commitments to implement required institutional changes—sector restructuring and policy reform. The reason for this is difficult to ascertain. The evaluation of the sector assistance program for power development in Bangladesh attributes success, at least partly, to the demonstration effect of initiatives such as the creation of the Rural Power Company, solicitation of bids for the Meghnaghat private power project, and the separation of DESCO and PGCB from DESA and BPDB. However, this is something of a “chicken and egg” conundrum because some of the events,
- certainly the creation of DESCO and PGCB, required major policy decisions. So the question of why government was inclined to back these experiments in the first place remains unanswered. A detailed review of the circumstances in which government acceptance of ADB’s model for power sector development and commitment to implementing it waxed or waned at different times in different South Asian countries might produce valuable information about the process of induced institutional change.
- **Continuing through corporatization.** In ADB’s model for power sector development, corporatization is an intermediate stage on the road to full privatization. There is inevitably some risk that government may not be fully committed to privatization and is calculating that corporatization is a compromise that ADB may ultimately accept as the end position. Such corporatized entities might be prone to a gradual re-takeover by government, whether by design or by default. This could happen due to, for example, increasing domination of the boards of directors (e.g., DESCO and NEA), challenges to the corporatized entities’ exemption from public service rules (e.g., PGCB), and access to subsidized supplies (e.g., DESCO and PGCB). Without the market test from share flotation, efficiency can only be gauged by using proxy indicators and while government owns the business, accountability will always be unsatisfactory. While corporatization can undoubtedly improve the situation, the government and ADB must agree that it is a transition state and not an end point.
 - **Unsatisfactory CD.** According to the power EAs in Nepal and Sri Lanka, ADB’s CD-related interventions have been a little disappointing. The scores from the questionnaire responses are significantly less than those for the other sectors/subsectors reviewed (Table 4). Dissatisfaction was expressed concerning (1) the ownership of project objectives, (2) the shortage of staff to assign to the TA and meet the consultants’ requirements, (3) the lack of cultural understanding by the consultant, (4) the lack of a mandate for the work from the top, and (5) the difficulty of implementing the

consultant's recommendations without a follow-up TA. While the last three points relate to experiences from some years ago, the first two relate to relatively recent experience.

- **Focus on CD.** In some project preparatory TAs in Sri Lanka, the project documents do not clearly state whether sufficient attention has been given to building capacity within CEB so that it can formulate projects. While the consultants are required to provide "training courses and seminars," the primary objective appears to be preparing the project for processing by ADB, and managing the acquisition of knowledge and skills by CEB staff is very much secondary. If, as this implies, CEB's project formulation capacity is already well developed, why then is project preparatory TA considered necessary?

Capital Markets Subsector (Bangladesh)

CD Interventions

Appendix 3, section 7 summarizes ADB's CD-related interventions in the capital markets in Bangladesh, with detailed assessments of associated changes in the capacity of the EA. The main focus in this study is the Securities and Exchange Commission (SEC), but its central position in the capital market means CD interventions aimed at other subsector organizations are also relevant.

Immediately after SEC's establishment in 1993, ADB provided a seminal TA to get the fledgling organization up and running. The TA was generally successful and was followed by a program loan, the Capital Market Development Program, and by further TAs in 1997. In 1996, the Bangladesh stock market had crashed due to suspected fraudulent transactions (although there were no prosecutions) and the economic effects lasted for several years. Investor confidence had been badly shaken, and the program loan sought to restore it by financing the cost of ironing out fiscal distortions and requiring compliance with a comprehensive action plan for restructuring and reform. Subsequent TAs

continued the CD process, extending the scope of ADB's interventions and readdressing areas where progress with previous interventions was slow.

Changes in Sector Capacity

The regulation and functioning of the capital markets in Bangladesh has undoubtedly improved since the crash of 1996. SEC acknowledges the considerable reform of the legal framework led by ADB with strong support from the Ministry of Finance and little political interference. However, the PCR on the Capital Market Development Program rated this key intervention as only partly successful (ADB 2003d). Progress has been slower than hoped on many fronts, with governance in particular being persistently weak. The succession of CD TAs with objectives and inputs that repeat previous ones (such as those concerning SEC's enforcement capabilities) is evidence of the intractability of some aspects of CD in this subsector. While SEC's supervisory capabilities were significantly enhanced, the supply and demand sides of the capital market built up slowly due to insufficient government commitment and staff shortages.

The root cause of SEC's problems appears to be the continuing dependence on government funding, because the capital market is not large enough for SEC to be self-financing. Despite its formal confirmation as an autonomous agency and its freedom in practice to determine operational policies without reference to government, the management of SEC is effectively still controlled by government, which appoints the board members. SEC sees this as partly a legal matter, but mainly a practical and circumstantial issue. For example, one problem area concerns the granting of licenses to merchant bankers: this should be within SEC's remit, but the legislation that covers it puts it under Ministry of Finance control. Another example concerned the creation of additional posts in SEC that required government consent, but the ministries involved (finance, law, and establishment) could not agree with each other. The result was that these proposals have been in limbo for 6 years. This situation has particularly adverse consequences for SEC's ability to recruit and retain high caliber staff, since SEC employees remain subject to

standard public service conditions that offer meager compensation for the kinds of financial skills and experience that are highly valued in the private sector.²⁸ Until SEC can function independently of government, the effectiveness of capital market CD will remain far below its potential. Mass privatization of state-owned enterprises may be needed to raise the market to a level where SEC could be self-supporting.

Despite these problems, there are indications of increasing market confidence: the share index and market capitalization have risen substantially in the last 2 years and some recent initial public offerings were heavily oversubscribed.

Assessment of ADB's CD Interventions

Diagnostics. The main constraints on SEC's capacity are shown in Appendix 6. The heavy institutional content reflects the difficult policy environment into which the newly created SEC was launched. Only later did the impact of this on progress with capital market reform become apparent. At the organizational level, it appears in retrospect that the initial assessment of training needs for SEC was not thorough. Recent TAs have started to address this.

Design. The CD interventions appear to have been generally adequately designed with clear objectives, well-defined priorities, and appropriate activities. Since SEC was a new organization, consultants had to be assigned the critical role of change agents. The amount of consultant input seems on the low side for a task of this complexity, possibly because other donors were providing complementary inputs. The combination of consultant expertise to design the organization and its systems, training to enable staff to use them properly, and conditional loans to persuade government to make the necessary institutional changes was appropriate. The EA appreciates

²⁸ Some positions in the Securities and Exchange Commission (SEC) reportedly command only one tenth of the salary paid for private sector jobs requiring similar qualifications and experience. SEC has lost 10 department directors during 2000–2005. In June 2005, only five people had been recruited for eight deputy director positions (requiring a masters degree and 6 years of relevant experience) that had become vacant, despite advertising the jobs three times.

ADB's willingness to listen to its views on components for inclusion in programs and to make adjustments accordingly.

Implementation. ADB has criticized its implementation of some of the CD interventions. The tranche conditions of the Capital Market Development Program loan were ambiguous, with inadequate distinction between which actions or performance achievements were release conditions and which were not. ADB was too lenient in its judgments on compliance status, and failed to follow up with specific measures and policy dialogue after the second tranche was released to ensure full compliance.

With regard to the staff training components of TA, the approach seems to have been one of persistent attempts to remedy deficiencies stemming from too few and insufficiently qualified and experienced staff by following one TA with another. However, this could not tackle the fundamental problem of SEC's unattractive employment conditions compared with the private sector. Stronger pressure on government through loan conditions to free SEC from public service constraints might have paid off better in the longer run (a proposition with which SEC agrees). A more effective SEC, reinforced by more and better staff, would help capital markets grow faster so that SEC would become self-financing.

SEC did not adopt the practice of some EAs in other sectors, for example LGED, of requiring staff who had returned from training abroad to take on training or mentoring roles themselves in SEC. SEC considers that the training modules and courses made available through TA were often too short to lift staff capabilities substantially and sustainably. Nevertheless, many staff members who were trained under ADB interventions subsequently left for higher paid jobs elsewhere. ADB staff members see SEC as less purposeful than some EAs in other sectors in assigning staff to work alongside consultants as counterparts. ADB staff attributed this to staff shortages in SEC and the disincentive of the massive differential between staff and consultant remuneration for the same work. SEC noted a tendency for consultants to require logistical support from SEC staff rather than substantive professional inputs. The variable quality of consultants was also a factor.

EA's Assessment. SEC agrees with the livestock EA that ADB's CD was, overall, between "better than average" and "fairly good." Table 4 summarizes the EAs' assessment of the quality of ADB's CD.

Strategy. The sequencing was logical: start with strengthening and developing SEC and then spread capacity building to other capital market institutions such as the stock exchanges, the Investment Corporation of Bangladesh, and the Central Depository Bangladesh Ltd. However, ADB has since concluded that too much attention was given to SEC at the expense of other capital market participants—SEC's clients in most cases. One of the objectives, therefore, of a recently approved ADB project is to train and test such participants. In retrospect, it is easy to view ADB's goals for capital market development in Bangladesh as overly ambitious because insufficient time was allowed for multiple, complex institutional, organizational, and interorganizational changes to take root, consolidate, and be institutionalized before undertaking new interventions.

Good CD Practice Considerations

ADB's interventions that were focused on SEC are compared with good CD practice criteria in Appendix 7. Despite some shortcomings, ADB's approach did not have fundamental flaws. This overall assessment is supported by the EA's assessment of the quality of ADB's CD assistance (Table 4). The issue that stands out is that of incentives. ADB has not been able to find a workable solution to the uncompetitive salary structures in SEC, which requires addressing at the institutional level. However, whether uncompetitive salaries have a knock-on effect in terms of SEC's ability to allocate enough of its staff to ADB CD projects and of the personal commitment of the staff concerned is debatable.

Principal Findings and Issues

The four main findings and issues are as follows.

- **Need for favorable key institutional factors.** The experience with SEC and with capital market development in general

underlines how difficult it can be to achieve effective organizational (and interorganizational) change, when key features of the institutional environment are fundamentally unfavorable. One response might be to refrain from organizational intervention until institutional deficiencies (such as SEC's HR issues and the independence of its board) have been rectified. The alternative approach, and one ADB has opted for, is to work more or less simultaneously on both institutional and organizational problems. This is a pragmatic response and is probably more consistent with country priorities than the alternative.

- **Continue dialogue, don't just manage consultants.** ADB's role in CD for SEC may have tended to be that of managing consultant inputs rather than providing SEC directly with the benefit of ADB's own knowledge and expertise of capital market development, particularly of other countries in the region. This suggests a need for more intensive dialogue at the organizational level, as well as pursuing the reform agenda at the institutional level.
- **Have consistent capacity assessments.** Consistent assessments of capacity are important. ADB reported in August 2003 that "strengthening SEC was a major achievement" and in December of the same year that "SEC lacked credibility and effectiveness as a regulator." This may reflect a different focus—on outputs as opposed to outcomes—but it suggests some need for more internal discussion on appropriate capacity indicators.

Livestock Subsector (Nepal)

CD Interventions

Appendix 3, section 8 summarizes ADB's CD-related interventions in Nepal's livestock subsector and assesses associated changes in the EA's capacity. The period selected for review spans ADB's involvement from the first Livestock Project (1980–1987) to its fourth major investment, the Community Livestock Development Project (approved at the end of 2003). ADB has been by far the largest donor over the last 25 years, with Danish

International Development Assistance (Danida) a substantial second. A key TA project was the ADB-supported Livestock Master Plan (1990–1993), which changed the orientation of subsequent ADB investments in the subsector toward activities at the local community level.

Changes in Sector Capacity

The capacity of the Department of Livestock Services (DLS) to implement projects has increased enormously. The RRP for the Community Livestock Development Project (ADB 2003f) says that DLS has shown that it has the necessary organization structure, staff skills, and general technical competence to successfully manage a large and diverse project. ADB also credits DLS as being one of the more innovative government departments in Nepal, having pioneered several innovations such as public–private partnerships, cross-sector cooperation, and small-scale entrepreneur development. However, the RRP also noted that the changes in DLS’ managerial ability, role orientation, cross-sectional linkages, extension capability, and competence started under the Third Livestock Development Project (1997/2003) need to be continued and reinforced.

As with some of the rural infrastructure EAs covered in this study, DLS has had to change from being the primary service provider to becoming a facilitator of service provision including privately provided services. It has had to greatly increase its physical presence at the local level in order to act effectively as the integrator of rural development components. This may soon be institutionalized under the government’s formal decentralization policy. Such a transformation of a public sector agency requires fundamental changes in the understanding staff have of their jobs, by what criteria their performance will be judged, and of the ultimate purpose of DLS and the justification for its existence. By any measure, such a task will require a lot of training and close support. This has indeed been provided and helps to explain why the amount of TA provided remains relatively large, despite successive interventions over a very long period (Appendix 5). It also explains why DLS considers it still needs more training to complete the transformation.

RM staff members consider that DLS’s capacity has improved substantially during the last 10 years or so and give it a very high overall score (over 90%) for present capacity (based on attributes listed in Table 3).

Assessment of ADB’s CD Interventions

Diagnostics. Appendix 6 shows the main constraints on DLS’s capacity that ADB identified during and since the preparation of the Third Livestock Development Project, in 1996. During the entire period reviewed (1980–2005), ADB’s analysis of DLS’ strengths, weaknesses, and CD needs clearly improved as the relationship between the two parties developed and both began to understand better the real nature of the challenge facing DLS. This required emphasis in CD on transforming DLS into a client-focused facilitator of service provision to livestock farmers as opposed to traditional CD that was more concerned with DLS’ ability to manage inputs to ADB projects. That there are fewer entries in Appendix 6 under DLS (Nepal) than under SEC (Bangladesh) reflects the general view in ADB that the livestock subsector in Nepal is a success story for ADB, while the capital markets subsector in Bangladesh is one of frustration at best and possibly of failure at worst.

Design. In terms of training objectives and methods, a major advance came with the Third Livestock Development Project and was further refined in the Community Livestock Development Project. In the latter project, the proposed training programs for DLS staff and for stakeholders in the rural community are very impressive, although it is hard not to view the intended manipulations of traditional power structures in rural communities as an extremely ambitious objective. This is not a criticism, because the ADB–DLS relationship is a “trail blazer” in leadership for innovation in development.

Implementation. The effectiveness of DLS in contributing to poverty reduction and livelihood improvement among livestock farmers in Nepal has increased significantly over the last 25 years. ADB’s assessment is that DLS’ capacity has

increased with successive ADB loans. Thus, the CD assistance was effective, as proportionately greater TA has not been needed to support project implementation as time has passed.

Although there was a conceptual breakthrough with the Third Livestock Development Project in terms of overall project design (including multiple partners, local group focus, etc.), the users considered the project documents to be weak on the crucial question of “how to do it.” During implementation, some project activities were dropped at the midterm review as unworkable.

ADB and DLS staff lobbied hard for the government’s agreement to allow NGOs to be involved in the project. Trials with NGOs in three districts using TA funds demonstrated conclusively within less than a year that NGO-supported village animal health workers were more effective than those trained by DLS. A policy brief went to the government, which agreed to the participation of NGOs. This seems a good example of joint “learning by doing” facilitated by a flexible, process approach to project implementation that must have contributed substantially to CD in DLS.

EA’s Assessment. Table 4 summarizes the assessment of ADB’s CD, based on two TAs, and concludes that ADB’s CD was, overall, between “better than average” and “fairly good.”

Strategy. The aim for the livestock subsector is for everyone who wants to rear livestock to be well trained; able to procure readily available, high quality inputs (materials and advice) from private suppliers; and able to sell produce to private consumers, traders, and processors. The farmer beneficiaries will be operating in competitive markets well served by transportation and communications and subject to high quality regulation for product standards and animal disease control. ADB and DLS started from a situation where little or none of this existed. They subsequently implemented investments broadly in the following sequence:

- infrastructure and input delivery,
- market development, and
- privatization of services upstream and downstream of animal production.

In hindsight, this has worked. However, at the beginning no attention was paid to the ability of the intended beneficiaries to use what was being provided. This was rectified later.

Good CD Practice Considerations

Appendix 7 gives DSL’s assessment of ADB’s interventions according to the criteria of good CD practice. The early interventions are rated low. Their CD focus was dispersed and unclear. However, subsequent interventions have come progressively closer to the desired standard. A relationship of strong mutual trust between ADB and DLS has developed, strengthened by long-term personal relationships between staff in the two organizations committed to ensuring project success. DLS sees the establishment of the Nepal RM as reinforcing the relationship. The strong relationship gave both parties, for example, the confidence to decide to take the Community Livestock Development Project into conflict areas of the country.

Principal Findings and Issues

The four main findings and issues are as follows.

- **Strong ADBEA partnership—a major asset.** ADB’s long partnership with DLS, which has lasted for a quarter of a century, has helped to transform the livestock subsector in Nepal. It has contributed significantly to alleviating poverty, because most poor rural households are engaged in livestock-related activities. Both parties were willing to learn from mistakes and to try new approaches. Much of the recent progress in pioneering community-managed service delivery can be attributed to strong personal and professional relationships lasting several years between ADB and DLS staff.
- **A model project.** DLS is now implementing projects that are ambitious in their reach into microeconomies and societies of the country’s rural communities and continues to pioneer in methods of service delivery. Thus the Community Livestock Development Project is a model of how to design a project to reduce

rural poverty around CD of an EA. The rate of transformation required of DLS has been relatively rapid in the last 10 years.

- **Time for consolidation?** To what extent DLS staff can really keep pace with the rate of professional reorientation required through these training interventions and whether a period of skill and knowledge consolidation while they get used to their new roles might perhaps be useful remain to be seen. Future performance could fall short of the high targets set. Staff and beneficiaries may need time to fully absorb the new ideas, arrangements, and practices. ADB and DLS may need to consider how to ensure sustainability of outcomes in this context.
- **The importance of “ownership.”** It is interesting to compare the successful CD interventions in the livestock subsector in Nepal with the unsuccessful experience of the Livestock Development Project in Pakistan. The Pakistan project had similar objectives to the Third Livestock and Community Livestock Development Project in Nepal. However, ownership of the Pakistan project was weak from the start, with the veterinary establishment uninterested in improving the reach and quality of what they regarded as essentially production services and against using private suppliers of animal health services in principle. The Pakistan PCR concluded that ADB needed to put greater emphasis on change management processes and on the joint review with stakeholders of progress with institutional reform as evidenced by key indicators (ADB 1999a).