

III. Operational Aspects

Key Determinants of CD Performance

Part II of this report reviews selected sector and EA CD experiences, with the questions posed in Table 1 providing the broad framework for the enquiry. This allowed assessments of how far and how fast progress with CD has been made, based on documentary evidence, interviews, and answers from the EA and RM staff questionnaires (Appendix 1 and Table 3, respectively). The implicit working hypothesis was that CD success or failure, in terms of raising the sustainable performance of EAs, would be largely explained by the extent to which the CD interventions concerned had met good practice criteria (Table 2). The hypothesis indeed appears to be valid. The question that now needs to be addressed is how to ensure that future CD interventions conform more closely to good practice. The findings of this study suggest that certain factors, some of them interrelated, must be taken into account when designing and implementing CD assistance targeted at organizations.

Institutional Context

The CD model (Figure 1) views organizations as being enabled or disabled by an institutional environment over which they have little direct control. Such elements of it (the exogenous variables) that appeared to be particularly significant for the sample EAs were

- the attitude of government toward commercialization of the sector agencies and/or toward private sector participation;
- the general state of the public service, meaning its governance (integrity, transparency, and accountability), its professional ethos (pride in good performance, merit-based career paths, and public standing), and—what this study has shown to be particularly critical—levels of reward compared with the private sector; and
- the governments' decentralization policies, which clearly have major implications for how

EAs are mandated and organized: any uncertainty concerning such policies is likely to hamper EA performance.

The context in which fundamental change in an EA is sought can significantly affect the probability of success. The power sector provides a good example. Where an EA has to be highly customer/client focused and depends for its market growth on reducing unit costs, commercial competition combined with performance-related incentives for staff will be essential. Corporatization can supply these factors to some extent, although this may not be sustainable unless corporatization continues to privatization. If the institutional context for implementing organizational improvement is unfavorable, major reforms within an EA are unlikely to occur or be sustained as a result of interventions directed at the EA alone. (For example, Bangladesh's SEC will not be able to function effectively until the staff compensation issue is resolved.) Fundamental change in EA culture will require handing down policy from above (context) or reforming from inside the policy EA that pushes upwards for attention and that, by definition, requires strong EA leadership. In these circumstances, CD intervention will need to tackle the institutional issues prior to tackling the issues at the organizational level (EA) or in parallel with them.

Sequencing of Investment and CD

This aspect of sequencing interventions refers to (1) the appropriateness of CD interventions in relation to the stage of development of the sector and hence the EA's primary mission at the time, and (2) the order in which and rate at which CD and investment projects are introduced. Sector restructuring and policy models that are facsimiles of successful international reform experiences are "blueprints" for CD sequencing. An example is the unbundling, corporatization, and/or privatization with independent regulation model for the power sector. The strategy for livestock subsector development that evolved in Nepal—of infrastructure provision followed by market

development followed by privatization of services—required parallel sequencing for CD interventions. A policy of decentralization imposes its own sequencing requirements on CD strategy (e.g., as in some of the rural infrastructure sectors and the livestock subsector reviewed). Technical capabilities need to be strengthened at the center before they can be applied to capacity building of local level organizations.

The appropriate sequencing of CD and investment interventions will inevitably remain a matter of fine judgment in many cases. On the one hand, proceeding with an investment project when the institutional conditions (the external environment in which an EA operates) are unfavorable or where there are doubts about the adequacy of EA capacity is risky. On the other hand, not to invest can mean foregoing opportunities to demonstrate the development performance of new operating models and denying EAs the opportunity to gain project implementation experience. Thus, this study concludes that investment and CD probably need to go together because loans can be used to persuade governments to change policies and reform institutions and because it is difficult to build EA capacity in an investment “vacuum.” Large projects offer the best opportunities for “learning by doing,” provided the CD associated with the loans really does help the EA to learn and is not there mainly to supplement the EA’s implementation capabilities (i.e., capacity substitution). Also, the type of investment project selected can have an influence on the CD content of ADB’s overall assistance to the sector. The effect of sustained and close engagement between EAs and ADB is also important, in which knowledge and experience is shared, new ideas introduced, and leaders for change identified and encouraged to emerge.

Sequencing of Institutional and Organizational Interventions

The experience with SEC (Bangladesh) underlines the dilemma. ADB could have refrained from intervention at the organization level until institutional problems (e.g., SEC’s HR policies and board independence issues) had been rectified. The alternative approach, which ADB opted for, was to work more or less simultaneously on both

institutional and organizational problems. It could be argued that the first strategy might be a more “efficient” use of ADB’s resources, on the grounds that once the institutional preconditions had been met, organizational improvement should be a relatively straightforward task and require fewer ADB resources to accomplish. However, the second strategy might be more effective in that a constituency of advocates of ADB’s model for sector restructuring/reform is built up among the organizations supported, and can help drive the change process in the institutional arena. Furthermore, this strategy is probably consistent with a demand-driven approach to CD. Exclusively top-down approaches (emphasis on institutional change first, organizational change second) that are implemented at the expense of more bottom-up assistance (emphasis on support for organizations) may obscure the expression and recognition of local preferences.

Prime Movers

The CD literature and CDWG acknowledge that leadership in the partner organization is often a critical factor in CD success. Strong leaders, whether individuals or close-knit alliances of like-thinking people (the “key champions of reform” referred to in Figure 2), can transform the culture and performance of an organization, as cases in the sample EAs demonstrate. ADB staff members recognize from their operations experience that local champions and allies of the agenda being promoted by the interventions are vital. This “drivers of change” approach to development assistance strategy is being increasingly recognized as fundamental to success, particularly in difficult political circumstances. Thus “[one donor’s] 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). ADB’s governance review notes that while the importance of political economy factors is acknowledged, it is underused in ADB and rarely used to assess the political feasibility of reforms (ADB 2005d).

The absence or departure of prime movers from the scene, or replacement by a weaker or less supportive individual or group of allies, is frequently cited in ADB documents as one of the main causes of failure. This study includes examples of EAs losing momentum when a prime mover has gone and not been replaced by a person or people of similar caliber and commitment to the same agenda. Indeed, the existence of such prime movers may constitute an “entry point” for certain CD interventions. The emergence of influential leaders who associate themselves publicly with ADB’s goals may take time and they are not always located at the top of the government structure—they may be in an EA and even, initially at least, not at its apex. Strategic intervention targeted at the EA concerned may help move its leaders nearer to center stage, where they can influence national policy.²⁹

Prime movers need to be nurtured and supported within the bounds of propriety and respect for political neutrality.³⁰ Their identification will often require close familiarity with the local situation and should be an essential part of an RM’s general brief. Diplomatic and technical skills will be required if the agenda favored by prime movers (actual or potential) and ADB is not that of the prevailing power within government. In such circumstances, ADB will have to tread a fine line between pushing for needed reform and being seen to side too much with minority views.

Incentives

Incentives have received much attention in the CD literature and were referred to frequently by ADB staff during the course of this study. The paradox of underperforming organizations staffed by very

competent people was frequently cited as evidence of poor incentives for public sector employees. There was also the strong suggestion that this represented an almost insurmountable impediment to increasing organizational capacity.

The interesting cases, which need further analysis, are where similar contexts have different effects on EAs and, therefore, different implications for CD interventions. In some sectors, including power and financial markets, the poor state of the public service was undoubtedly blunting the impact of CD interventions at the EA level. For example, if an EA is unable to recognize and reward acquisition of knowledge and skills by its staff, the effectiveness of staff-oriented interventions may be limited and training is likely to be wasted. Where EAs had managed to break out of the poor incentive trap, the difference in staff commitment and motivation was very noticeable. In other cases, such as rural infrastructure and livestock, the effect of the poor state of the public service was much less apparent. The lack of alternative employment opportunities in the private sector, particularly when operations are very decentralized, may be a partial, but not complete, explanation.

Client Orientation of the ADB–EA Relationship

Successful CD experience in several of the cases is associated with ADB’s relationship with the EAs being focused more on “client management” than on “task management,” i.e., focused on the long-term relationship over many activities rather than just on the shorter term associated with only individual activities. Good client management relationships encountered in this study reflect close personal relationships between EA and ADB staff (particularly RM staff) built up over many years and based on mutual professional respect and trust. There is a strong sense of joint ownership of projects, with both sides working closely together to design CD interventions and tackle implementation issues as they arise. The client management approach is undoubtedly more staff-intensive than the task management approach, which may partly explain the cases of the latter.

²⁹ Possibly the most powerful demonstration of leadership from within a small organization ultimately resulting in policy and institutional reform on a huge scale was the so-called “household responsibility system” in the People’s Republic of China. Starting as a self-designed policy in a single agricultural production team around 1978, it had spread to virtually every rural commune in the country by the mid-1980s and paved the way for market liberalization in farm products.

³⁰ One senior EA official interviewed during this study said his organization often welcomed certain ADB loan covenants because they pressure the government to take actions that he considered were needed for successful reform.

Improving CD Assistance: Suggested Principles

ADB's support for CD in South Asia could be made more effective by closer adherence to some key operating principles, as noted in the recommendations of other CD studies, particularly by ADB. While the recommendations particularly concern interventions directed at EAs, they may have broader application.

Fostering Project Ownership

Country or sector agency ownership of externally supported projects is essential to CD that is genuinely demand-driven. The key test is who leads and manages the process of identifying development priorities (overall, not just CD priorities) and formulating projects and programs accordingly. During discussions with the EAs investigated, ownership did not appear to be much of a problem, but some of the questionnaire responses suggest otherwise. Despite the importance of working with EAs to help them articulate their priorities and prepare their own plans, the formulation of ADB-financed projects in all but one of the EAs is still largely undertaken by ADB consultants. This persists even after the implementation of multiple ADB projects. One explanation is that the kind of CD required to support the new types of project requires special knowledge, experience, and skills. This is because the new projects strongly emphasize participatory stakeholder involvement and the integration, under the umbrella of the sector EA, of multiple service provision at the local level. The pace and scale of innovation is such that EAs require continued support for project formulation. Another view is that the EA has learned little about project formulation from previous experience with projects funded by multilateral development banks, or ADB does not trust them to deliver what it wants. Both views may have merit. If so, this indicates a partial failure in one important aspect of CD.

When the EA does not drive project identification and design, ADB remains in control and it will be difficult for the EA to accept the project as its own and be committed to it. The responsibility for

formulating “bankable” projects should be left to the EAs, and this will not happen unless they undertake the primary task of preparing projects themselves. This is the minimum requirement. The same principle should apply to EAs' involvement in formulating sector strategies and road maps.

Whether the EAs use consultants to assist them in this task is largely irrelevant, provided it is their own choice. The ability to outsource work effectively by using consultants—which means writing appropriate terms of reference, managing the inputs, controlling quality, and ensuring the results are usable—is an indicator of well-developed management capacity. It is the opposite of capacity substitution. Some of the EAs reviewed (e.g., LGED and NEA) were successful at integrating the work of consultants into their own management systems, but this applied more to project implementation than to formulation.³¹ Once the EA has prepared a project, ADB should decide whether the proposed project (not just the EA's report on it) meets ADB criteria for support. If not, the EA should be required to reformulate it, a task for which ADB could offer its assistance. The end result would be projects that the EAs feel are theirs and know meet the standards of best practice.

Instead of ADB supplying consultants automatically through projects, it might be worth experimenting with a CD fund that is put at the disposal of an appropriate body to dispense. This could be an economic planning or finance ministry of the national government or even an independent commission appointed by government. In policy dialogues with EAs and their line ministries, EAs would be encouraged to assess their own consultant needs in order to prepare projects suitable for ADB support. The EAs would then apply to the fund for resources with which to hire consultants. The EAs thus would be competing for the fund's resources. ADB could assist with consultant selection, if requested.

³¹ The Local Government Engineering Department (LGED) is better at this, in its small-scale water resources operations, than the Water Development Board in Bangladesh, which still uses consultants to do basic design work, as opposed to using them to review design work done by the Water Development Board staff.

Clear Commitment by ADB to CD: Allowing EAs to Learn

In some TA interventions that were purportedly for CD, a portion of the “CD input” appeared to be used to ensure smooth implementation. Project implementation TA should only be used as a form of “insurance” for projects that are so urgently needed that optimum implementation performance is essential. All other TA should be a learning opportunity for the EA.

Genuine CD includes learning from mistakes and failures, which are not necessarily reasons for ascribing poor performance to an EA. While the EA should accept full responsibility and remain accountable for its actions, better planning will not always produce viable projects—no one can be that sure of the correct solution to development problems. Many private companies, for example, spend a lot of money on research and development and feasibility studies in order to try to filter out riskier proposals, but even then they accept that some projects will still fail. In its transition from an administered to a market-based economy in the late 1980s and early 1990s, the People’s Republic of China experimented with a wide range of new policies at the local level before implementing them nationally and was not afraid of subsequently writing some of them off as unworkable (World Bank 1988). Does ADB, in providing substantial project implementation TA, inadvertently transfer its own risk-averse approach to its client EAs?

The same applies to project preparation. Is the EA concerned developing its own capacity to combine the creativity and technical expertise that good project formulation requires? This will never be adequately tested while ADB steps in at some point and takes over the project preparation process, as largely happens at present. Turning good project proposals written by EAs into documents ADB can feed into its own internal processing systems is a legitimate reason for deploying ADB resources during project preparation. But responsibility for the primary task of preparing pre-feasibility and feasibility studies should be transferred to the EAs. Requiring those who will be implementing projects to design them is the best way of ensuring realistic and relevant proposals and commitment to achieving success.³²

It will also ensure better integration of ADB-supported projects with country and agency processes and systems, which should improve project sustainability.

ADB relies heavily on consultants to do its work. Generally, in most contexts, consultants perform three main functions:

- providing access to knowledge or skills the client does not have and needs to acquire;
- extending the client’s production capacity by replicating existing staff resources (outsourcing); and/or
- legitimizing the case for change by providing authoritative and independent advice.³³

Consultants may also be used in place of the client’s own staff (capacity substitution). The study data do not always clarify for what purpose ADB was using consultants in its CD interventions. The “pure” CD use is for access to knowledge or skills, although the role of legitimizing the case for change can be very helpful for CD when policy reforms are required and governments need convincing. There may sometimes be good reasons for ADB to help extend the production capacity of the EA; however, the EA might use the consultants provided for capacity substitution, when the objective is behavioral change as a precondition for capacity expansion. Since capacity substitution is not a sustainable strategy for an EA in the long term when the consultants concerned are donor-funded, EAs need to clearly understand why ADB is providing consultants. This issue may require more careful attention in ADB’s policy dialogues, both at ministry and EA levels, so that each party fully understands the real intentions of the other.

There also seems to be an issue concerning project documentation. Many RRP, while being well-written examples of how to address all ADB policies and themes within the compass of a single project, are not particularly useful as implementation guides. RRP are concerned with demonstrating to an ADB readership that all the

³² The head of one EA was reportedly content to let ADB prepare his projects for him on the grounds that it saved his staff the trouble and meant that the responsibility would not be his if anything went wrong.

³³ Hence, one senior EA official said that his director general was more inclined to take advice if it came from consultants than if it came from his own staff. The source of this comment saw this as a useful function of consultants.

rules governing ADB's development assistance have been complied with. Thus, for EA and sector ministry readers, RRP's may not be direct or clear enough about the priorities, organization, and processes that are deemed essential for successful project management. Thus, additional documentation may be required to deal with the practicalities of project implementation from the EA's viewpoint, but this is not always provided.

Strengthening the Strategic Approach to CD

A recurring criticism in ADB evaluations of its approach to CD assistance is that it has been characterized by too many ad hoc, often issue-focused, interventions—"opportunistic projects," as they are sometimes called—that are not grounded in any coherent, longer term strategy. Such a piecemeal approach does not encourage DMCs to develop their own medium-/long-term CD plans consistent with the strategic needs of the sectors concerned, i.e., the CD components of road maps.

The sample experiences show elements of this opportunism, but it has to be recognized that the sector situation is dynamic. Consequently the route followed on the road map may have to be a winding one, adapting to some extent to the twists and turns of circumstances. Over-strategizing needs to be avoided as much as under-strategizing, as indicated by the generally successful TA experience in the People's Republic of China. ADB's evaluation of the Bangladesh power sector came to the same conclusion, and noted that "an approach to sector reform based on piloting change and learning by doing can work more effectively than one based on a detailed plan" (ADB 2003h).

Essentially, a sector road map is a strategic programming device that links proposed interventions to sector objectives and performance "milestones" over the medium/long term (e.g., the

road map for the livestock sector in Nepal).³⁴ Such maps should form the basis of the policy dialogue between ADB and its DMCs concerning the latter's CD requirements and how ADB can help to ensure these are met. This requires ADB and its client agencies to develop joint competencies (joint, because local ownership of the road is essential) in diagnostic capacity assessment, CD action planning, and CD change management. Equally important will be mutually agreed methods of obtaining and analyzing data with which to monitor and evaluate CD. The data should be used to determine CD milestones reached and hence the ability of the sector to absorb more investment efficiently.

Selective Sector and Cross-Cutting Focus

The issue here is the quality of the policy dialogue that ADB is able to maintain with DMC governments, given the knowledge, skills, and experience that ADB can bring to bear (mainly, but not wholly, a question of staff deployment). These are important to building constructive relationships between ADB and its clients. ADB's sector expertise and experience cannot be spread too thinly if it is to maintain its credibility and professional respect among DMCs' sector specialists. Similarly, EAs will assign their best people to ADB projects if they perceive that ADB has also assigned highly knowledgeable and experienced staff. Thus good CD and sector selectivity and focus are mutually reinforcing. The recent review of ADB's governance and anticorruption policies has also pointed to the need to be selective at the country level with a few key sectors per DMC if mainstreaming of these policies is to be effective (ADB 2005d). The same principle probably also applies to cross-cutting or economy-wide interventions: the focus should be on activities that are particularly significant for the chosen sectors.

Conferring Greater Value on ADB-Provided CD Resources

Grant-funded TA is an important modality for ADB CD support, with much of it intended to provide EAs with resources for training, networking, and

³⁴ The road map for the livestock subsector in Nepal is relatively comprehensive. It takes a perspective from 2005 to 2015 and contains several CD milestones, including the CD of NGOs and private entrepreneurs (ADB 2003f, Appendix 1). An example from outside the study, which proved most effective in practice, is the ADB–World Bank road map for the National Highways Authority in India, first drawn up 6 years ago.

knowledge management in general. Unlike project preparation TA, however, CD TA is not perceived as providing access to substantial investment funding. Consequently, EAs may consider CD TA less valuable and attach lower priority to it. That the EAs are not paying for CD TA may reinforce this attitude. This may help to explain why some EAs do not maximize the impact of staff training. The same probably applies to networking assistance.

Ways need to be found of conferring value on training provision and on other “soft” CD resources. One approach would be to make CD provision a scarce resource with an opportunity cost. Instead of ADB supplying training automatically through projects, training could be procured by an EA from a CD fund, e.g., for consultants for project formulation. In policy dialogues with EAs and their line ministries, EAs would be encouraged to assess their own training needs in order to raise their capacities to the entry levels ADB requires before it is prepared to entrust them with implementing investment projects. The EAs would design suitable training programs themselves, apply for training resources from the fund, and choose suitable training courses. ADB could assist with program design and course selection.

Since the reward for training would, indirectly at least, be access to ADB investment finance, this approach might persuade EAs to take training more seriously by recognizing and using the enhanced skills of staff who have been satisfactorily trained. The concept of a CD fund is discussed in more detail in the next section.

Recommended Approach to Providing CD Assistance

Seven main recommendations emerge from this study. The context in which they are formulated, their rationale, the principles governing their application, and the actions required to put them into effect are outlined in the following subsections.

Background

The Present Position. ADB has contributed significantly to successful CD in South Asian countries. Most of the sector and country CD experiences selected for this study have been success stories for ADB and the EAs and DMCs concerned—power in Bangladesh; rural infrastructure in Bangladesh, Nepal, and Sri Lanka; and livestock in Nepal. Power in Nepal and Sri Lanka has had less to show in terms of CD progress, but they are far from being failures. Capital markets in Bangladesh has been the most difficult of the CD experiences, but even here some advances have been made. This sample indicates that ADB has broadly been doing things right, even if it is the result more of trial and error than of deliberate planning—in South Asia, at least, ADB has been doing better than it thinks it has.

Future Direction. Despite much encouraging experience, a number of underlying concerns remain about the effectiveness and efficiency of ADB’s approach to CD. Most of the concerns stem from ADB’s dual role as financier and adviser. Providing DMCs with access to funds for spending on approved projects and programs is different from helping DMCs improve their development management capability through learning. ADB controls the flow of its funds into DMCs, but DMCs determine their acquisition of higher skills and knowledge (including the lessons of experience). ADB cannot provide learning in the way it can provide funds; it can only enable and facilitate the learning process. The conflation of the objectives of successful project and CD outcomes in many of ADB’s operations leads to unsatisfactory CD outcomes. Adding more policies and themes to compliance checklists for operations staff will not solve the problem. Rather, a change of course may be required.

ADB has two basic opportunities for influencing events in DMCs through CD assistance.

- First, through policy dialogue, ADB can persuade governments to adopt particular policies and structures (primarily for institutional change).
- Second, ADB can provide DMCs with access to the expertise (e.g., advice, training, and information exchange) required for the design and implementation of institutional and organizational improvements.³⁵

Loans with conditions are an appropriately direct instrument for ADB to use to strengthen its persuasive powers for institutional change (e.g., decentralization and private sector participation). Governments have to weigh the costs (including political risk) and benefits of decisions to amend or introduce new laws and regulations. However, organizational reform involves long-term changes in collective behavior and culture, reflecting an internal recognition that things have to be done differently. The desire to change comes from exposure to new ideas and examples and the means to change come from the acquisition of skills and knowledge. The organization has to persuade itself it must change, and be helped to do so by complementary changes in its institutional environment.

External pressure for change will have little effect without internal conviction that change is needed. Therefore, ADB needs to shift from itself to its clients more of the responsibility for managing CD. ADB's organizational CD interventions should become less direct, providing its clients with access to CD resources for organizational change but leaving it largely to them to determine how the resources are used.

This does not mean decreasing the policy dialogues between ADB and its DMCs or relaxing its concern about the effectiveness of resource use. Rather, policy dialogue on CD will assume greater significance and DMCs' use of CD resources will also be subject to more intense scrutiny.

A Capacity Development Fund

ADB could consider establishing a capacity development fund (CDF). The concept is similar to ADB's existing Cooperation Fund for the Water Sector, in that the proposed CDF would also be used to finance a coherent framework for sector CD. However, the proposed CDF goes much further in that it would include lending as well as TA modalities and, crucially, would involve fundamental

changes in responsibilities and accountability for CD in the DMCs and in the relationship between ADB's CD and investment operations.

Grant and Loan Facilities. The CDF's grant element would be used primarily for consulting services, training, networking, knowledge management, organization twinning, international exchanges of information and on-the-job experience, and similar activities currently financed by grant TA. The CDF's loan element would finance CD pilot projects and the general adjustment costs associated with significant organizational change and institutional change that are sector-specific. The CDF would not normally be used for major cross-cutting institutional and policy reforms; these would continue to be supported by program loans.

Allocation in Countries and Sectors. The country and regional allocations would be administered economy-wide and by sector. The government department with appropriate responsibility for the whole economy (e.g., a ministry of finance or economic planning or prime minister's office) would administer the CDF allocations for institutional and interorganizational CD. Each sector ministry would assign an appropriate office to oversee the sector CDF allocation and manage that sector's overall CD program. Each main EA within the sector would also mandate one of its offices to administer CDF allocations for organizational CD. ADB, in consultation with the DMC government concerned, would broadly determine the division of the total country CDF allocation between institutional (including interorganizational CD) and organizational CD.

Within each country, drawdowns from the country CDF allocations for institutional CD would be decided by the apex CD unit in close consultation with ADB, which might also be offering investment or program loan support for the particular CD activities. Within a sector, draw-downs for organizational CD would also be decided by the apex CD unit. The decisions would be based on applications for CD funds received from sector EAs, endorsed by their line ministry. The sector ministry CD office (for institutional CD activities) and of the EA CD unit (for organizational CD) would be responsible for procurement and expenditure

³⁵ A good example of ADB successfully providing all three types of CD assistance—advice, training, and information exchange—was the 2-year arrangement for help and mentoring from the Philippines Central Depository to its counterpart organization in Bangladesh, managed through the offices of SEC.

decisions (e.g., for consulting services, training courses, study tours, and facilitation of international exchanges of staff). ADB would offer advice and assistance in relation to these decisions, but the ultimate choice would rest with the DMC entity concerned.

ADB explored this approach in a pilot study in relation to consultant recruitment. The pilot study has concluded that, although results to date have been mixed, EAs with adequate capacity and central government commitment are able to recruit consultants within a reasonable time and without significant implementation problems. The objective is “to promote increased ownership and project benefit sustainability” (ADB 2005a).

Linkage Between CD Progress and Investment Borrowing. The primary rationale behind the model advocated is to ensure CD is demand-led by DMCs and not supply-driven by ADB. The demand for CD will be induced in DMCs that need to satisfy ADB’s CD-related qualifying criteria for loan support (for all purposes). Thus, in the full application of this principle, ADB would only offer loans for investment projects if

- they have been well formulated (by the sector ministry or its EAs), in that they address the development priorities and meet the eligibility criteria of ADB and government; and
- the EAs involved can satisfy ADB that they already possess the required implementation capability or are actively engaged in a suitable CD program of their own that is intended to give them the capability to implement this type of project.

If the project formulations for which ADB financing is requested do not meet ADB’s requirements, the DMC government could

- request the sector ministry or EAs to reformulate it, possibly assisted by further draw-downs from the country’s CDF allocation; or
- request direct help from ADB.³⁶

Similarly, if ADB judges that the EAs involved do not have sufficient project implementation capability for the particular project under consideration, ADB could offer direct assistance through project implementation TA or agree with the EAs that the scope of the project should be

reduced to fit the EAs’ capabilities. Direct support would only be available to the EAs if they can demonstrate genuine commitment to CD. If EAs do not have the implementation capability and are not in the process of acquiring it, then no loan would be forthcoming. By introducing a formal process whereby evidence of sector ministries’ and EAs’ real commitment to CD and progress with CD is taken into account in deciding whether or not to support any investment project, CD would become truly mainstreamed in ADB’s operations. An active CD program managed by the sectors and EAs would be an entry threshold for ADB support. This will increase the value attached to CD by the EAs and their ministries.³⁷ Furthermore, when sectors and EAs have to compete for finite CDF resources, their perceived value should increase.

This linkage principle is similar to that discussed in a *World Economic Forum* report (WEF 2006), that country eligibility for access to risk mitigation tools should be linked to a commitment to enter into a concerted CD program. An example is the Basic Education Sector Capacity Support Program in Indonesia that ADB is cofinancing with the European Community. The project will be establishing a CDF to operate at central, provincial, and district levels to support CD in the basic education sector. This demand-driven approach uses eligibility criteria for participation, including clear evidence of commitment to change, as an incentive to drive systemic improvements (ADB 2005c).

The proposed CDF approach would also circumvent the problem of external training provided under CD interventions often being perceived as perks rather than serious inputs. Decisions about the use of CDF resources for training would be internal; one appropriate

³⁶ In the Bangladesh power sector, local project formulation capability is well developed. In such cases, the government, EAs, and ADB could discuss needs, agree on principles, and then jointly prepare the project. This requires a relatively high level of technical sector expertise in ADB.

³⁷ ADB is already applying this principle in its results-based management regional TA [ADB 2005b] that is being implemented in four South Asian countries in collaboration with DFID. In Nepal, for example, ADB insisted that the National Planning Commission, not ADB, organize the project performance management system workshop.

arrangement might be for an expert advisory panel attached to the CD unit for each sector to review all applications for training from EAs. This is a large-scale version of practices that have already been used under some ADB TAs (e.g., Capacity Building of SEC and Selected Capital Market Institutions—ADB 2000c).

Scope. The CDF-supported CD programs managed by the CD offices in the EAs would cover all the EA's functions and services provided, not just those that were being supported with ADB investment loans. If an EA requires direct ADB support for formulating and/or implementing ADB-supported projects because it lacks the required organizational capacity, ADB should be prepared to provide this. ADB commonly provides project preparation TAs, consulting services, and project-related training built into loan-financed investment projects. The proposed approach would eliminate the confusion over the real purpose, in these circumstances, of the consulting and training services. They would be provided explicitly to ensure proper project implementation, and not for CD except when deliberately intended to have a CD function also.

The proposed approach has two advantages:

- the capacity substitution would be transparent, and
- it would help break down the sometimes deep-seated notion in EAs that CD activities are only relevant to externally financed projects and not to the EAs' primary service delivery function.

The joint work of the implementation consultants and the EA staff would still provide the EA with opportunities for learning, but this would be voluntary. The consultants' task would not be split between project execution and CD: when they are combined, the former is given precedence over the latter.

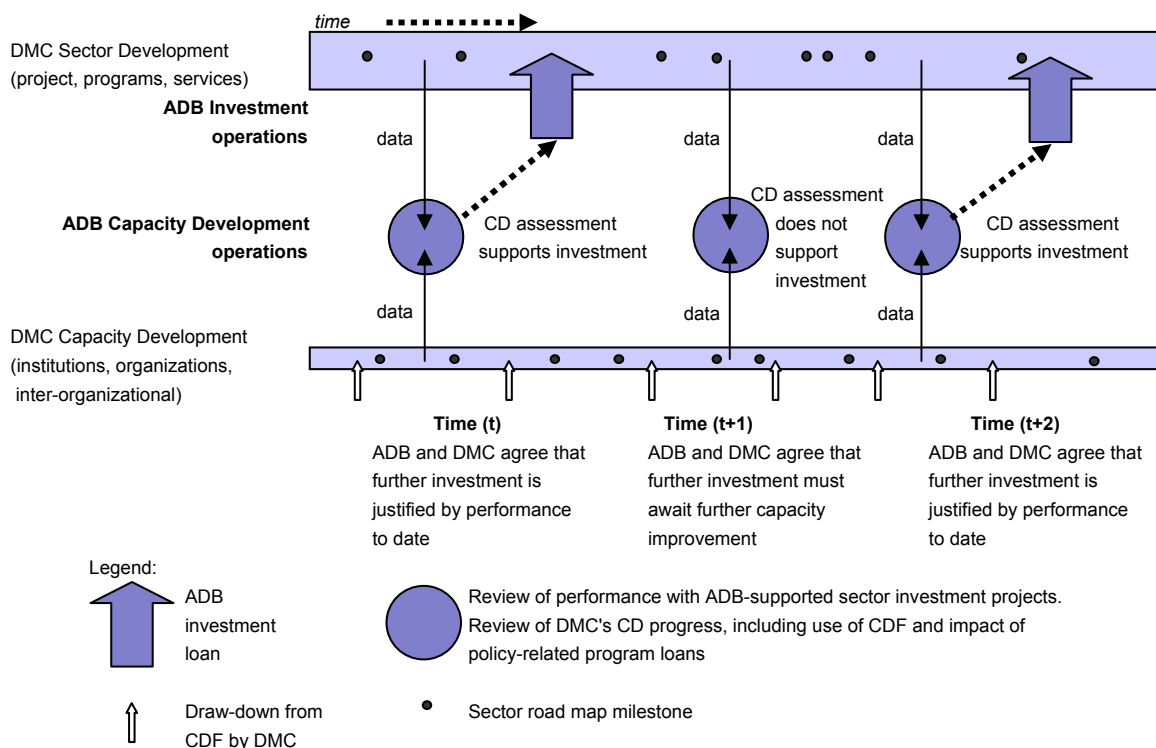
There will, of course, be important exceptions where the need for investment is urgent (e.g., to meet an emergency or to eliminate a critical technical bottleneck) and/or essential (e.g., as a fundamental prerequisite to meeting the basic needs of chronically poor households). In such cases ADB would automatically offer technical support for project formulation or implementation if local capacity to do this is inadequate.

Pilot CD Projects. A CDF that is used at the DMC stakeholders' discretion should facilitate the use of pilot projects and similar experiments to explore the feasibility and acceptability of large-scale CD projects that are significant departures from the norm in design or implementation. There would be no need to establish a special TA; in policy dialogue, the DMC would simply report on the results of the pilot test as part of its discussion of the evidence to support particular approaches. In Sri Lanka, for example, ADB developed a pilot program to finance electricity connection costs for poorer households through a revolving fund administered by local microfinance organizations. Such arrangements would not prevent ADB from taking the lead if a sector ministry or EA is unwilling or unable to address an important issue.

The World Bank offers "learning and innovation loans" to test new approaches in new contexts, demonstrate the effectiveness of different approaches, build trust among stakeholders, and test institutional capacity. These loans, which do not exceed \$5 million and are normally implemented during 2–3 years, allow for flexible planning to enable initiatives to be scaled up.

An Example. Under current operations, ADB would provide a project preparation TA to NWSDB in Sri Lanka for the Secondary Towns and Rural Community-Based Water Supply and Sanitation Project. However, under the proposed CD approach, NWSDB would first apply to the CD unit in the Ministry of Housing and Urban Development for resources with which to help formulate and implement the project. ADB would have reviewed these proposals. If it had found, for example, that insufficient attention was being given in project design to a component, ADB could (1) request reformulation before it could consider agreeing to prepare the project for processing, or (2) offer to provide direct assistance to help reformulate the project. Ongoing CD programs (probably drawing on CDF resources) would be a basic eligibility criterion. In relation to project implementation, ADB would assess the extent to which NWSDB's ongoing CD program conferred adequate capacity for the component. If ADB found that NWSDB was not in a position to manage this component effectively and efficiently, ADB could offer project implementation TA specifically for this component. Alternatively, NWSDB and ADB might agree to

Figure 3: Proposed Approach to Capacity Development



ADB = Asian Development Bank, CD = capacity development, CDF = capacity development fund, DMC = developing member country.

reduce the scale and scope of the component until NWSDB had acquired sufficient capacity to manage it.

Institutional CD. If ADB considers that the constraint on sector performance is institutional rather than organizational, (e.g., the sector needs to be restructured and/or requires fundamental policy changes before progress can be expected at the EA level), then ADB can require that this constraint be addressed by a CD program that precedes or runs contemporaneously with investment projects. This is an approach ADB frequently uses. For example, ADB's willingness to consider providing more help for the subsidiaries of the Investment Corporation of Bangladesh (ICB), which were established as a kind of compromise response to ADB's pressure for ICB to be restructured, has been made conditional on the privatization of ICB. The difference in the proposed approach is that the DMC would have to decide on the optimal allocation of its CDF resources among the various institutional and organizational CD programs in the different sectors.

CD and Sector Strategy

Putting CD at the Center of Sector Strategy and Management. An important objective of the CDF approach is to encourage DMCs to regard CD as a continuous, ongoing process under their own control. Achieving this objective is essential if DMCs are to develop economy-wide and sector capacity to levels that will attract investment by ADB, other donors, and the private sector. At present, much CD is regarded as being part of the donors' agenda and delivered noncontinuously in project packages in a relatively unpredictable manner. The CDF approach allows ADB to provide long-term funding for CD in a manner that would encourage DMCs to draw up their own long-term plans for CD. Policy dialogue will focus on establishing road maps that integrate sector investment and sector CD. The DMCs will be obliged to take the CD component of the road map very seriously because progress on it will be critical to determining progress toward ADB's concurrence with the investment sought. The performance of projects will become largely

a function of the quality of local CD programs, which, although financed in part by the CDF, will primarily be the responsibility of governments and EAs. Other donors' adoption of these principles and harmonization of related operational procedures will greatly strengthen the outcome of this strategy.

The proposed approach is presented in Figure 3. Initially, ADB reviews information on investment project performance and CD in the sector concerned and concludes that further investment lending is justified. However, a later review concludes that capacity is insufficient to merit further investment. ADB would discuss with the DMC government and other stakeholders as necessary, and encourage them to accelerate CD. If necessary, ADB could assist with replenishments of the country CDF and/or with policy loans. When ADB again judges that CD is sufficiently advanced, ADB may resume investment in the sector. In effect, this is a results-based management approach.

For ADB staff, the close integration of its investment operations and its CD operations, maintained through positioning of the milestones for development outcomes on the sector road maps, will elevate the status of CD work to the same level as investment work. There is a widely held view in ADB that TA projects are not given the same attention by staff as loan projects, e.g., in follow-up and supervision. This problem should be solved with the proposed approach, provided staff incentives mirror the new operational priorities. The DMCs would be responsible for making the best use of CD resources. This approach will also shift the focus in the policy dialogue from conditional commitments of ADB support in return for DMC assurances about future performance to recognizing and rewarding achievement, which is a sounder basis for operations.

Long-Term Support for Educational Foundations of Capacity. Sector road maps for financing with the CDF will facilitate ADB support for such purposes as core funding of selected curricula (physical facilities, faculty, course development, etc.) in educational, training, and professional institutes, or even the establishment of new ones. DMCs will be encouraged to give priority to providers that have significant potential to

contribute to CD in ADB's focal areas.³⁸ Project-specific TA is inevitably restricted to aspects of people's work that are amenable to intensive, short duration exposures to knowledge and to the acquisition of skills for a limited range of very specific tasks. This type of training cannot substitute for the deeper and broader immersion in a subject or skill area that comprehensive, long-term educational and training courses can provide

Project-related TA-provided training can build incrementally on a sound existing knowledge base and polish and upgrade existing skills, but it cannot rectify basic deficiencies in ability and experience. An example of the kind of long-term support envisaged would be the establishment, with ADB support, of a securities or capital markets institute to underpin CD in the capital markets subsector. (In Bangladesh, this would, for example, address SEC's complaint that the training modules and courses made available through ADB TA were often too short to lift staff capabilities substantially and sustainably).

Incentives for Public Servants. The CDF approach might also make it easier to find solutions to the pervasive problem of public service compensation. Access by public service staff to training opportunities is very limited, particularly in poorer countries, and the distribution of such opportunities that are linked to specific, donor-funded projects is often seen by staff as something of a lottery. This is not conducive to maintaining morale. If governments have access to CDF funds for staff training (including long-term support for selected courses in training institutes) such opportunities can be delinked from particular donor-supported interventions. Thus, training could be provided more systematically across ministries and sector organizations and help reduce staff dissatisfaction about the allocation of training opportunities and, indirectly, pay awards.

³⁸ Services provided by such institutes to, for example, EAs for ADB projects, would be charged for, as with any other client, but ADB could credit the EAs' capacity development fund (CDF) accounts with the cost so as to encourage the EAs to use CDF-supported institutes.

Table 5: Problems Attributed to ADB's Present Approach to Capacity Development and How the Recommended Approach Will Address Them

Problems	Solutions
Capacity development (CD) interventions rely heavily on technical assistance (TA) and tend to be piecemeal, ad hoc, and focused on short-term issues rather than on long-term systematic weaknesses.	A capacity development fund (CDF) will facilitate long-term CD support that can address the fundamental causes of capacity deficiencies. This will encourage developing member countries (DMCs) to see CD as a continuing process that requires proper strategy.
CD TAs are supply-driven rather than demand-led DMCs are reluctant to pay for TA, preferring investment loans.	Progress with CD, supported by a range of services (including TA) that can be financed by the CDF will be a key criterion in evaluating investment requests. DMCs will decide how they will use these services.
Support for project implementation and CD can become confused in CD interventions based on TA. There is a tendency to focus on technical efficiency at the expense of behavioral change in the executing agency (EA).	The EA will decide whether to use TA services to assist project implementation. However, the EA's commitment to its own CD program (including the use of TA services) will be a key criterion on which ADB will base its decision on whether to provide a loan, and on its size and scope.
CD interventions are sometimes not well integrated with local capacities, processes, and systems.	The design and implementation of CD projects and programs will be the DMC's responsibility, using services procured with CDF resources.
CD-related assurances and covenants for investment projects are often complex and unrealistic.	Policy dialogue will focus on evaluating achievements as a demonstration of commitment to CD, rather than on assurances about future commitments. This will reduce reliance on assurances and covenants.
Sector ministries and EAs generally give low priority to benefit monitoring and evaluation (BME).	Joint ADBDMC assessment of project performance (outcomes) will be a critical part of policy dialogue and approval of further investment. DMCs will have strong incentive to maintain high quality BME systems that can track agreed key performance indicators
CD interventions are often misdirected because EAs treat external provision of training as a staff reward rather than as skills building.	The EAs will select the training, and will have to determine how best to use the limited resources available. This will enhance their desire to use the resources advantageously.
Asian Development Bank (ADB) staff members do not give as much attention to CD TA as to loan projects. EAs often give lower priority for allocating staff and facilities to CD TA than to loans.	In ADB, CD operations will be based on administration of the CDF. Since the efficacy with which DMCs use the CDF (with ADB's help) will drive investment approval, both ADB and EA staff will be strongly motivated to take CD seriously. This will automatically mainstream CD in ADB and DMC operations.

Advantages of the Proposed Approach: Summary

Table 5 summarizes the ways in which the proposed shift in ADB's CD strategy would address the main shortcomings of the present approach.

Possible Disadvantages of the Proposed Approach

Five main objections that may be raised are the possibilities of (1) a slowdown in ADB lending due to protracted CD-related project processing, (2) difficulties effectively linking progress with CD and access to investment loans, (3) misuse

of CDF resources due to corruption, (4) a loss of ADB's influence over its DMCs' development agendas, and (5) a reluctance among operations staff to cede control over their loan projects.

Risk of Lending Slowing Down. If the responsibility for formulating and implementing ADB-financed projects is to be shifted to the sector ministries and EAs, this might result in a slower flow through the loan pipeline. For example, the appointment of consultants might be of concern—the pilot study referred to previously (ADB 2005f) largely failed in its first phase because EAs took so long to appoint consultants. However, this may have been partly due to overly restrictive conditions

laid down by ADB, which can be remedied. In fact, CD is designed to solve such problems: if EAs' cumbersome procedures and/or inexperience are causing problems in appointing consultants, then ADB should help them to get better at this, not substitute its own decision-making process for that of the EAs. The result will be that the EAs learn to use CD resources more effectively for all their projects, programs, and services, not only those in which ADB invests.

In moving to the proposed CDF-based approach, DMCs are likely to choose to make greater use of domestic consultants. Capacity limitations in domestic consulting industries in the face of rapidly increased demands on them could result in their commanding higher fees as high quality supply is exhausted. Market forces would then encourage growth in domestic consulting industries. The domestic consulting industry might include partnerships with international suppliers of consulting services, but probably on terms that are more favorable to the local partner. ADB can assist the domestic consulting industries with knowledge about international consultants and how to engage with them.

In the longer term, lending should speed up because faster progress will be made with CD, which in turn will increase the absorptive capacity of borrowers. The potential problem is the short term. However, the risk of a detrimental impact on the rate of loan processing can be reduced by judicious timing and selection of countries and sectors for "graduation" into the CDF program and by intensive CD support from ADB as they make the transition.

Linking CD and Borrowing. A possible objection to the proposed approach is that an EA's commitment to a CD program does not guarantee that CD is actually occurring in the EA. For example, a sector ministry or an EA may be running high quality staff training courses as part of the CD program, but trainees leave after the courses because they are now more marketable elsewhere. This risk is likely to be highest where the training concerns generic functions such as general, project, or financial management. However,

- unless the individuals concerned leave for jobs abroad, their enhanced capability will

- contribute to increasing national capacity; and
- the problem of trainees leaving underscores the need to address the general issue of incentives.

Interventions of an institutional nature may be needed to address this constraint before or in parallel with interventions at the EA level. Government, ADB, and other development partners will need to agree on how CDF and other CD resources can best be used.

There is also the question of what to do with sector agencies that have weak implementation capacity. In principle, they would be denied access to project investment loans under the CDF approach, but in practice the access would depend on progress with diagnosing the causes of the weak capacity and formulating a program to remedy the deficiencies. If the agency concerned is not interested in doing this, it should probably not be entrusted with investment projects. On the other hand, if there is a genuine desire to advance, ADB can help the agency make the best use of CDF resources. ADB can also consider the "learning-by-doing" CD benefits of project loans and weigh these against the possible costs of inefficient project implementation. ADB will use its judgment, informed by careful analysis of each case, about whether an agency passes the "commitment to and progress with CD" test for eligibility for borrowing.

Corruption. ADB consideration of DMCs' applications for CDF replenishments will include careful scrutiny of how procurement had been conducted to date, as happens with procurement in all ADB projects. ADB CD staff assisting the CD units in DMCs will continue to monitor CDF operations, as project implementation staff do at present.

ADB's Influence. ADB's ability to guide the DMCs' sector development agendas in certain directions should not diminish. ADB's basic instrument of leverage is the loan. Rather, the quality of the policy dialogue should improve with less preoccupation with compliance with loan covenants and more attention to the EAs' capacity to achieve agreed project outcomes. This is because the proposed system puts much more responsibility on the EAs for ensuring project success. The logical consequence of this is that

they are given more room to maneuver, so that loan conditions become less relevant.

Staff Commitment. Operations staff might see the transfer of CD resources into the EAs' jurisdiction as a threat to efficient and timely project implementation and loan processing. However, this will be a real test of ADB's commitment to CD, since the value of ADB to its DMCs will be less easily equated with its rate of loan processing. Rather, ADB's project and program operations in South Asia will be seen as part of an overall program that assists DMCs to develop their own capacity to manage projects.

Application to CD Operations in South Asia

Changes in Loan and TA Processing Systems

The proposed strategy will require ADB to shift from its present direct, project-focused approach to an indirect approach that provides technical and material support through arrangements that place much more responsibility on the DMCs to manage for their own benefit. The study concludes that this is the more logical way of assisting the learning process and is thus likely to meet with greater success. The main implications for loan and TA processing are listed in the next paragraph. Figure 4 depicts the way CD-related resource flows are organized at present and Figure 5 depicts how they would be arranged under the proposed CDF-based approach. Both figures are on the following pages.

At present, most of ADB's CD assistance is provided directly in the form of (1) TA with substantial training and consulting services components, (2) policy loans to support reform programs, and (3) investment project loans with CD-related conditions or assurances attached. As depicted in Figure 4, each CD TA is usually aimed at a discrete area of policy or institutional change or is associated with the planning and implementation of a discrete investment project managed by an EA or with specific aspects of an EA's ongoing operations. These financial flows

from ADB into DMC sectors are shown by the broken arrow lines in Figure 4, and the inputs to sector ministries and EAs that these flows finance by solid arrow lines.

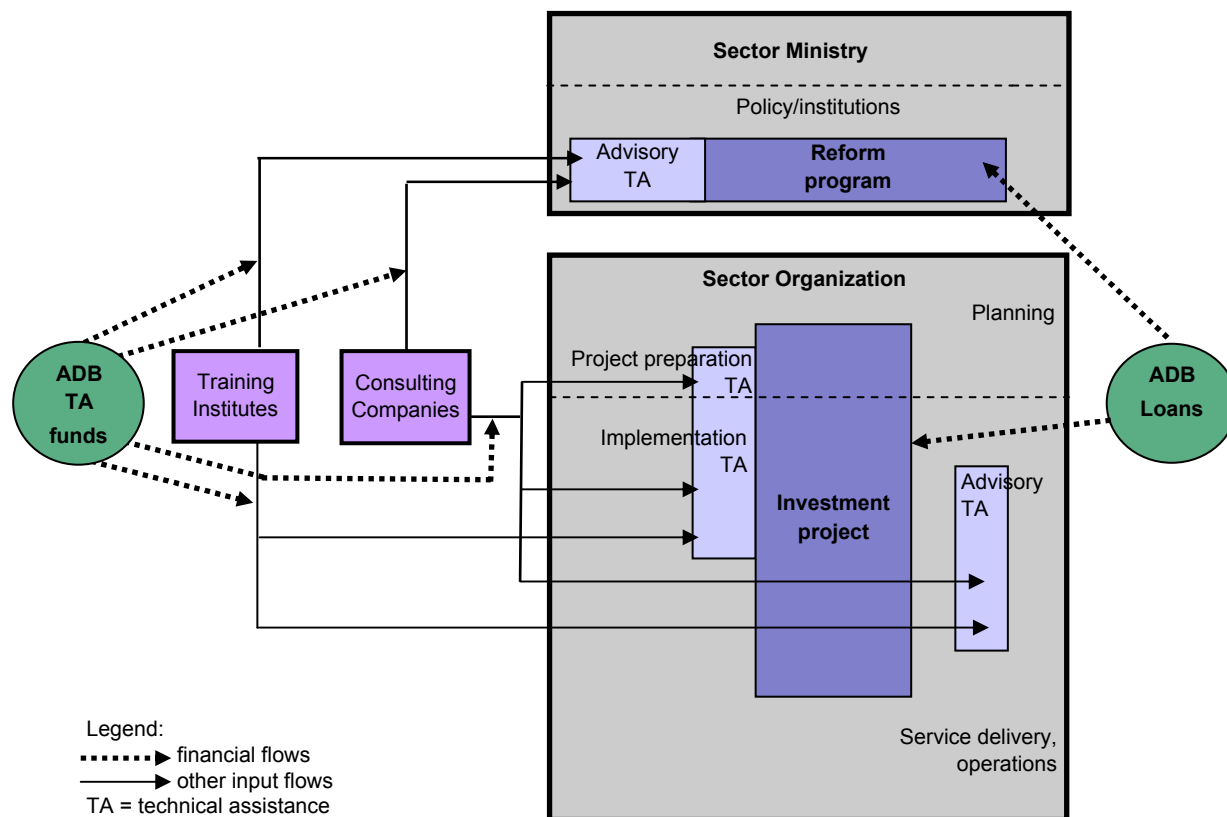
Under the proposed approach, ADB's CD assistance would be provided in a more indirect manner through the CDF. This would be drawn upon by DMCs—at their discretion but with ADB assistance where requested—to support their own sector CD programs for institutional and organizational, including interorganizational, change (Figure 5). ADB would continue to provide policy loans as at present. There would, however, be less need to attach specific CD-related conditions to project investment loans because loan approval in general would be contingent on satisfactory evidence of commitment to CD.

Loan Approval Based on CD Performance

Under the proposed approach, the joint assessment by ADB and DMC stakeholders of sector performance, particularly progress made with CD, will assume critical importance. In most cases the assessment will be the basis for decisions on which investment loans will be made. The nature of the negotiations will also change fundamentally. Instead of ADB "pushing TA at its clients to solve project implementation problems," DMC stakeholders will have to convince ADB that they have sector CD programs in place that are sufficiently well designed, managed, and resourced to justify additional capital investment in the sector. ADB will need to monitor, review, and advise on these programs continually in order to maintain up-to-date assessments of CD progress. Key CD performance indicators will need to be developed and agreed with DMC stakeholders. Thus CD will be effectively mainstreamed into both ADB's and DMCs' operations.

DMC stakeholders will be encouraged to give more serious attention to BME because they will know that ADB will be expecting good quality data on which to base its assessments. Satisfactory BME systems may be another entry criterion for further loan support. With ADB indirectly supporting sector and EA programs in their totality rather

Figure 4: Resource Flows for Capacity Development Assistance Present System



than on a project-by-project basis, EAs and their ministries are more likely to establish comprehensive BME systems covering all their operations.

Staffing Requirements

Key Role of Resident Missions. The RMs should be the focal points for ADB's engagement with the DMC offices in line ministries and sector agencies mandated to manage the CDF. The RMs should be given adequate authority to oversee administration of the country's CDF allocation.

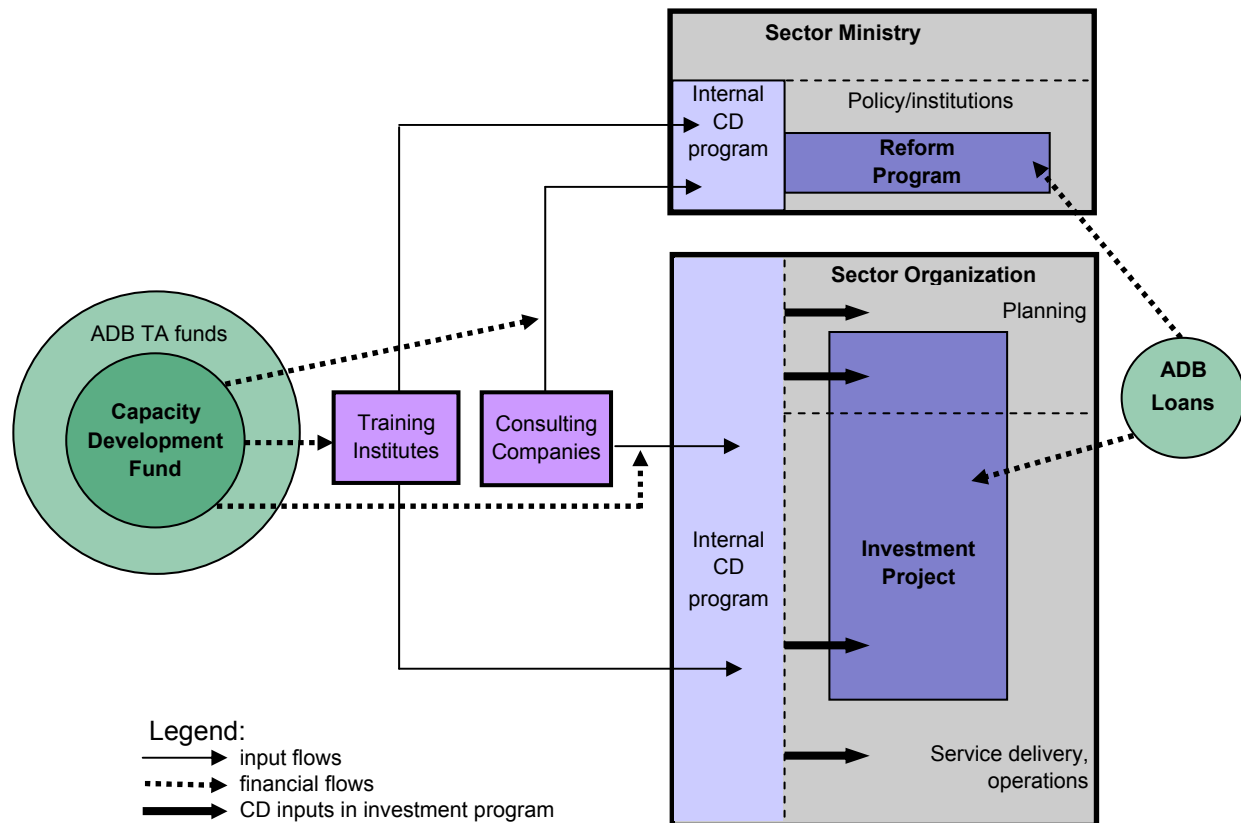
Specialist CD Staff. Close and frequent contact will be needed between RM and ministry/agency staff. This will apply particularly in the initial years of the CDF program, when DMCs will face a steep learning curve concerning where and how to procure and deploy CD resources most efficiently. In general, RMs will need to be able to provide

effective assistance to their host governments in their administration of allocations from the country CDF. CD units in sector ministries and EAs will need help to

- devise CD programs based on adequate diagnosis and needs assessment;
- screen applications for consulting services, training, international organizational information and work experience exchanges, data searches, and so on;
- select suitable individuals and organizations to provide these services;
- manage the delivery and use of these services in the sectors and EAs; and
- evaluate the impact and lessons.

The RMs will also play a major role in assessing the quality of sector ministries' and EAs' commitment to CD and to the quality of their CD programs. The RMs will need additional staff to take on this new mandate, including CD specialists and, probably, additional sector specialists.

Figure 5: Resource Flows for Capacity Development Assistance Proposed System



Change of Perspective. ADB staff will increasingly have to consider the value of CD services for DMCs such as training, consulting, networking, exchange programs, and knowledge management, and the suitability of their providers, from the perspective of the DMC stakeholders rather than from ADB's viewpoint.

Documentation

The emphasis in project documents will change from rationalizing the design of the proposed investment to a closer examination of what the sector ministries and EAs have achieved in formulating and implementing projects and programs that are aligned with ADB's objectives. CD will become a central part of the justification and approval process.

Collaboration with Other Donors

Comprehensive CD in DMCs comprises both economy-wide and sectoral components, supported by multiple donors. The CDF approach to CD in South Asian DMCs will have to be undertaken in partnership with other development agencies providing CD assistance, particularly those involved in sectorwide approach programs. A suitable arrangement would be the flexible partnership model, which seeks to adapt to varying country needs through collaborative problem solving and project implementation. The experience gained in setting up Indonesia's Partnership for Governance Program should be instructive.

Phased Introduction, Starting with Pilot Projects

The change of strategy will have to be phased in progressively. The CDF will be established and initial country allocations made from it. Sectors and EAs with good performance records will be selected as the first to move to the new system of CD assistance. This in itself is likely to act as a strong incentive for other sectors and EAs to improve their CD performance. After a period of time, experience will be evaluated, policies and procedures governing the CDF modified as required, and the next sector(s) and EA(s) to be included in CDF operations selected. The best way to start this process is with one or more pilot projects.

Before the new approach can be tested on a pilot basis,

- countries and sectors need to be selected,
- the guiding principles or rules governing the administration of the CDF need to be worked out in detail and the views of the DMCs selected for the pilot test and of other relevant donors sought,
- organizational changes will be needed for ADB to integrate CDF administration with the South Asia Department's lending operations in the countries concerned, and
- the size of the pilot CDF and its duration will need to be decided.

Issues relating to these four tasks are indicated in the following paragraphs.

Selection of Countries and Sectors. The CDF approach would be best pilot-tested in country-sector combinations in which

- the relationship between ADB and the ministry/EAs concerned has been long standing, constructive, based on a substantial element of mutual trust and respect, and particularly fruitful in developmental terms;
- commitment to using domestic as well as externally provided resources for CD is already strong; and
- there is a recognized and substantial pipeline of worthwhile investment projects.

This will facilitate acceptance of the principle of the new approach and the designation of CD offices within the relevant DMC agencies.

CDF Administration. ADB will need to develop guidelines for staff to assess the quality of projects formulated by DMCs and to decide whether they meet the eligibility criteria for loan support. Similarly, ADB staff will need to assess EAs' implementation capability. Both these tasks should be relatively straightforward, being extensions of work already routinely undertaken during project appraisal. More challenging will be the formulation of guidelines and the provision of specialized training in CD for ADB staff to enable them to judge the adequacy of ongoing CD programs and CD road maps in sector ministries and EAs. This is more challenging because it involves assessing EAs' own CD programs and sector road maps, for all their activities. This task is much broader and deeper than the usual assessment that is limited to EA capacity to implement a specific project.

Organization for CD in the South Asia

Regional Department. The role, responsibility, and authority of the RMs involved in the pilot projects will need to be defined. Particularly important will be the RMs' input to the preparation of appraisal reports and RRP, in terms of their judgments and advice concerning client eligibility for loan support. The RMs' judgments and advice will need to be formally recognized as a critical decision factor in project processing. For the CDF pilot test, the South Asia Department may need to "borrow" staff from the Consulting Services Division to assist with advising client DMC ministries and EAs on consultant selection and management, and staff from the Budget, Personnel, and Management Systems Department to help DMCs set up the machinery for CDF administration.

Suitably qualified and experienced ADB staff should be invited to manage one pilot project each from start to finish. These mission leaders, assisted by specialist CD staff, will lead the fact-finding, design, and implementation in collaboration with a DMC counterpart. The DMC agencies concerned will be encouraged to mirror ADB's arrangements by appointing a co-mission leader also for the duration of the project. The objective is to ensure, to the fullest extent possible, continuity of project management and partnership, and integrity of the joint learning process. It will also make it easier to align HR incentives appropriately with the primary

project objective, which is to test the new approach to CD assistance and to maximize stakeholders' collective learning from this process.

Size of the Pilot CDF. All new CD interventions in the countries and sectors selected will be financed from the pilot CDF, except for policy-related program loans. Ongoing interventions will continue to be managed through existing arrangements. Sector road maps will need to be drawn up as a basis for estimating total CD resource requirements. In keeping with the objectives of the new approach, this programming should probably be projected forward for at least 10 years, with appropriate forms of tranching if necessary to encourage good CD performance and to allow flexible responses to changing circumstances. The planned duration of the pilot projects should probably be a minimum of 2 and a maximum of 5 years. If a pilot project in any one country and sector proves successful, it can be scaled up to include more sectors in that country at any time.

Recommendations

The author proposes that South Asia Department's management consider seven recommendations to enhance the effectiveness and sustainability of ADB's CD assistance in the region.

- (1) Establish a CDF to finance all CD activities in South Asian DMCs (except policy reforms, which are normally supported by major program loans).
- (2) Give DMC governments responsibility for administering their national CDF allocations, and for suballocating this among selected sectors agreed with ADB.
- (3) Establish, and progressively strengthen, a clear link between approval of investment project loans and evidence of DMC commitment to and progress with CD in the selected sectors.
- (4) Steer the policy dialogue between ADB and DMCs using medium-/long-term road maps for sector development with clearly defined CD components and focusing on the joint assessment of how CD has influenced investment project performance.
- (5) Provide long-term funding for CD through the CDF, including core funding of selected curricula in education and training institutes.
- (6) Use RMs as the focal points for engaging with CD-mandated offices in line ministries and sector agencies concerning their management of the CDF. Give RMs the authority to administer country CDF allocations.
- (7) Phase in the change of approach progressively, starting with a pilot project in one or more country-sector combinations. Select these projects based on a history of strong performance associated with a good relationship with ADB.