

Executive Summary

The Study

Objective. The study examines selected capacity development (CD) interventions by the Asian Development Bank (ADB) in South Asia. It is the first study of CD specifically across South Asian countries. The focus is on the impact of CD interventions on the capacity of key executing agencies (EAs) in selected sectors to perform their functions satisfactorily. The objective is to identify ways of making future CD interventions in the subregion more demand-driven, effective, and efficient. The study builds on reviews of ADB's operations relevant to CD and on recent work by the Capacity Development Working Group (CDWG). The CDWG is mandated to review ADB's definition of, and approaches to, CD to achieve improved and more demand-driven delivery of CD support to developing member countries (DMCs).

The object is to identify ways of making CD interventions more demand-driven, effective, and efficient

Country and Sector Coverage. The sample of CD interventions is drawn from the rural infrastructure and power sectors in Bangladesh, Nepal, and Sri Lanka; the capital markets subsector in Bangladesh; and the livestock subsector in Nepal. The choice of sectors reflects the views of ADB staff members, particularly those in resident missions (RMs), about which CD experiences were likely to be particularly instructive. The review covers the last 10–15 years in most cases, with some extensions back to the 1980s.

Information Sources. The study is primarily based on a review of selected CD literature and perusal of ADB internal documents. This was supplemented by discussions with ADB staff members at headquarters and in RMs and with staff members of eight EAs during 2-day visits in each of the three countries. Questionnaires were sent to all but two of the nine EAs to elicit their views on recent, specific ADB CD interventions. Short questionnaires were also sent to the RM project staff members concerned to obtain their assessments of EAs' present capacities.

Analytical Approach. The approach is based on the model of CD formulated by CDWG, which derives from an extensive review of the international CD literature and of ADB's own experience. CDWG's analytical framework distinguishes three main elements of the CD system:

- organizations (such as departments, corporations, and agencies) and other groups, particularly in relation to their service delivery and management capabilities;
- interorganizational relations, particularly client relations, networks, and partnerships; and
- national institutions, meaning formal and informal rules, including laws, regulations, and customs that organize and govern the behavior of individuals and groups.

The study concentrates on the first element: organizations—specifically EAs, the target of most of ADB’s CD efforts to date. However, an EA’s performance is conditioned and modified by the institutional environment in which it operates. CD interventions such as sector restructuring and policy reform initiatives, directed at institutions, are therefore highly relevant to understanding the behavior of EAs.

The reviews of ADB’s CD interventions focus on their diagnostic, design, and implementation stages in order to evaluate in general their effectiveness based on criteria advocated by CDWG. Assessments are also made of the extent to which the CD interventions reviewed in a sector met nine “good practice” criteria for CD assistance. The nine criteria, which are defined specifically for this study, are adapted from good practice criteria recommended by CDWG and the CD literature as appropriate benchmarks for evaluating CD generally.

Sector Findings

Rural Infrastructure Sector. The EAs concerned are the Local Government Engineering Department (LGED) in Bangladesh, Department of Local Infrastructure and Development of Agricultural Roads (DOLIDAR) in Nepal, and National Water Supply and Drainage Board (NWSDB) in Sri Lanka. CD in this sector has been relatively successful. All three EAs are competent at implementing the kinds of investment project ADB has traditionally supported. In two cases, strong leadership succeeded in carving out de facto unofficial autonomy for government departments following their relaunch on a more elevated status, and in the third case the EA already enjoyed semi-independent status. Their independence insulated the EAs to some extent from the debilitating influence of unsatisfactory public service human resources policies and practices. The independence, combined with the professional challenge to engineering staff of getting to grips with the new social mobilization tasks and the fringe benefits available from strong donor support, has resulted in the staff showing a relatively high level of commitment to the job.

In Bangladesh and Nepal, no significant institutional reforms were required to overcome sector organizational hurdles in the way of greater 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. Substantial sector institutional issues in Sri Lanka (water supply regulation, independent tariff setting, and corporate private sector participation) make (and/or have made) the CD agenda more difficult and complicate the task of improving NWSDB’s effectiveness as an organization.

ADB’s relationships with the EAs have been constructive, with mutual trust developing over time. The presence of RMs and their strengthening from 1999 has undoubtedly had a reinforcing effect. The EAs considered ADB to be a good partner, prepared to be pragmatic and flexible if necessary in project design and implementation when circumstances change.

Independence, combined with the professional challenge . . . resulted in the staff showing a relatively high level of commitment to the job

This focus on the needs of the client (i.e., the EA) should be retained as ADB pursues its thematic priorities.

Overall, ADB's CD-related activities in the rural infrastructure sector have conformed quite well with currently accepted good CD practices. ADB's conformity has improved over time. However, in most individual interventions, ADB has not conformed with one of the nine good practice criteria. The EAs' own assessment of ADB's interventions covered by the questionnaire can be described as between "better than average" and "quite good."

Power Sector. The EAs concerned are Ceylon Electricity Board (CEB), Dhaka Electricity Supply Company (DESCO), Nepal Electricity Authority (NEA), and Power Grid Corporation of Bangladesh (PGCB). ADB's strategy for the power sector has been essentially the same in all three countries—to unbundle the power entities into their separate components and establish them as competitive commercial enterprises while setting up an independent regulatory and tariff-setting authority and encouraging private sector participation. ADB has had greater success in persuading governments to implement such sector restructuring and policy reform in Bangladesh than it has in the other two countries. This may be due 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 perceived governance failings.

In a market-oriented business such as power supply, which bureaucratic government departments are ill-equipped to manage, the impact of organization-level CD interventions aimed at improving management efficiency in those departments has proved difficult to sustain. This seems to apply particularly to accounting and financial management. CD intervention on the institutional front in order to prize the power entities out of government control and be able to jettison public service practices is a prerequisite for CD interventions on the organizational front. In PGCB and DESCO, corporatization undoubtedly created the conditions that allowed enterprising management and staff to have the incentives needed to improve efficiency.

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The oft-maligned instrument of technical assistance (TA) proved its effectiveness in situations when the client genuinely lacked expertise and experience. This was the case with unbundling and corporatization in the power sector and particularly so with regard to creating regulatory bodies and soliciting private participation. However, even when technical help is essential and available, if government is politically inclined against the restructuring/reform model in principle, then CD intervention by itself will have limited impact. This has been the case with some administrations in Nepal and Sri Lanka.

Compared with accepted good CD practice, the interventions in Bangladesh stand up reasonably well. But the interventions in Nepal and Sri Lanka appear to have been less satisfactory, and did not always induce sufficient local ownership of the projects. In Sri Lanka, this seems

to be related to problems with the (1) use of existing capacities; and (2) integration of external inputs, particularly consultants, with the EA's processes and systems. NEA and CEB assessments of ADB's interventions covered by the questionnaire can be described as only "average," perhaps slightly worse.

Capital Markets Subsector, Bangladesh. The main EA concerned is the Securities and Exchange Commission (SEC). The experience with SEC and, more broadly, with capital market development in Bangladesh, underlines how difficult it can be to achieve effective organizational (and interorganizational) change when key features of the institutional environment are fundamentally unfavorable. In this case, significant constraints include (1) unattractive employment conditions for finance professionals to enter public service, compared with conditions in the private sector; and (2) the limited de facto autonomy allowed SEC.

ADB's interventions focused on SEC may have had some shortcomings, but there were certainly no fundamental flaws in terms of good practice criteria for CD. This is supported by the EA's own assessment of the quality of ADB's CD assistance. The problem that stands out is that of incentives. At the organizational level, ADB has not been able to find a workable solution to SEC's noncompetitive salary structure, which requires addressing as a wider institutional issue.

Livestock Subsector, Nepal. ADB's partnership with the EA, the Department of Livestock Services (DLS), has lasted for a quarter of a century and has transformed Nepal's livestock subsector for the better. Both parties were willing to learn from mistakes and were not afraid to try new approaches. DLS is now implementing projects that are ambitious in the depth and breadth of their reach into rural micro economies and societies and continues to be a pioneer in methods of service delivery. The latest investment project reviewed, the Community Livestock Development Project, is, on paper at least (it is too soon to evaluate results on the ground), a model of how to design a project to reduce rural poverty through CD of an EA.

However, DLS has had to transform rapidly in the last 10 years. To what extent DLS staff can keep pace with the rate of professional reorientation required through training and whether a period of skill and knowledge consolidation is needed while staff get used to their new roles remain to be seen. Future performance could fall short of the high targets set and it may be necessary for the change agents and ultimate beneficiaries to accept that more time is needed for full absorption of the new ideas, arrangements, and practices. ADB and DLS may need to consider how to ensure sustainability of CD outcomes.

The CD focus of ADB's early interventions (in the 1980s) 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 grown over time, strengthened by long-term personal relationships between staff in the two organizations

Capital market development in Bangladesh underlines how difficult it can be to achieve effective . . . change when key features of the institutional environment are fundamentally unfavorable

The Community Livestock Development Project is a model of how to design a project to reduce poverty through CD of an EA

committed to ensuring project success. DLS rates ADB's CD interventions between "better than average" and "fairly good."

Key Determinants of CD Performance

The CD experiences reviewed point to factors, some interrelated, as having a strong influence on the development of EAs' capacities.

Institutional Context. Features of the EAs' general operating environment that appear to have a significant impact on their performance are

- the attitude of government toward commercialization of the sector agencies and/or toward private sector participation;
- the general state or condition of the public service, in terms of its governance, professional ethics, and human resources policies, especially compensation relative to the private sector; and
- governments' decentralization policies, which have major implications for how EAs are mandated and organized.

If the institutional context for improvements to organizations is unfavorable, major reforms within an EA are unlikely to occur or be sustained as a result of interventions directed at the EA alone. Fundamental change in EA culture will require policy from above (context) or policy reform from inside the EA that pushes upward for attention (the "prime mover" principle).

Sequencing of Investment and CD. The appropriate sequencing of investment and CD assistance in a sector will remain a matter of judgment. The 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. Substantial 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 (the capacity substitution effect). CD intervention will generally need to tackle context issues either prior to issues at the organization level or in parallel with them.

Sequencing of Institutional and Organizational Interventions.

ADB's approach is to work more or less simultaneously on both institutional and organizational limitations. One view is that sequencing institutional interventions first followed by organizational interventions second would be better on the grounds that once the institutional preconditions have been met, organizational improvement should be a relatively straightforward task and require fewer ADB resources to accomplish. However, ADB's approach might be more effective because a constituency of advocates of ADB's model for sector restructuring/reform is built up among the organizations supported, and that

Institutional environment: attitude, governance, professional ethics, HR policies, and decentralization policies all contribute to the success (or lack thereof) of CD interventions

Investment and CD probably need to go together

constituency can help drive the change process in the institutional arena. The combination of top down and bottom up may also allow local preferences to be expressed more easily.

Prime Movers. Leadership in the partner organization is often a critical factor in externally supported CD. Strong leaders, whether individuals or close-knit alliances of like-thinking people, can transform the culture and performance of an organization, as cases in the sample EAs demonstrate. Such people may need to be identified well in advance to evolve appropriate strategies that encourage their emergence as influential leaders who associate themselves publicly with ADB's goals. They may be in an EA and even, initially at least, not at the apex of the organization. Strategic intervention targeted at the EA concerned may help move the leaders nearer to center stage, where they can influence national policy. Such people/alliances need to be nurtured and supported within the bounds of propriety and respect for political neutrality.

Incentives. The paradox of underperforming organizations staffed by very competent people was frequently cited as evidence of poor incentives for public sector employees, with the strong suggestion that this represented an almost insurmountable impediment to increasing organizational capacity. If the culture of 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. In this environment, training is likely to be a waste of resources. Where EAs had managed, by various means, to break out of a poor incentive trap, the difference in terms of staff commitment and motivation was very noticeable.

Client-orientation of the ADB–EA Relationship. Successful CD in several cases seems to be associated with a type of relationship ADB has with some EAs that is more like client management than task management. This often reflects 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 on the design of CD interventions and tackling implementation issues on the spot as the problems arise. This is in contrast to more bureaucratic and schedule-driven (but less supervision-intensive) approaches to CD project administration.

Identifying and fostering champions

If an EA is unable to recognize and reward acquisition of knowledge and skills by its staff. . . . training is likely to be a waste of resources

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 that particularly concern interventions directed at EAs and may have application on a broader basis.

Fostering Project Ownership. Country or sector agency ownership of externally supported projects is the cornerstone of CD that is genuinely demand-driven. The key test is who leads and manages the process of identifying sector development priorities (overall, not just CD priorities) and of formulating projects and programs accordingly. The preparation of ADB-financed investment projects in all but one of the EAs is still largely undertaken by consultants hired by ADB. While ADB remains in control in this way, it will be more difficult for EAs to accept the projects as their own, which will lessen their commitment to the projects. The responsibility for formulating “bankable” projects should be left to the EAs, which will not happen unless they undertake the primary task of preparing projects themselves. This is the minimum requirement. The same principle should logically also apply to EAs’ involvement in formulating sector strategies and “road maps.”

Clear Commitment by ADB to CD: Allowing EAs to Learn. In some of the CD interventions reviewed, TA was provided to ensure smooth project implementation. TA for project implementation should not be a form of “insurance,” but 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 if its responsibilities and accountability have not been compromised. There must be space in the organization’s plans for experiments and initiatives that do not succeed.

The same principle applies to project preparation. Here, the issue is not whether ADB consultants fully apply participatory methods of project planning, but whether the EA concerned is developing its own capacity to combine the creativity and technical expertise that good project formulation requires. This will never be adequately tested so long as ADB steps in at some point and takes over. Requiring people who will be implementing projects to design them is the best way of ensuring realistic and relevant proposals and commitment to achieving success. It will also ensure better integration of ADB-supported projects with country/agency processes and systems, which should improve project sustainability.

ADB relies heavily on consultants to do its work. However, in some of the CD interventions reviewed, it was not always clear whether the consultants were there to provide expertise the client acknowledged it lacked, to extend the client’s human resources (outsourcing), or to legitimize the case for change. The risk is that EAs may, intentionally or not, use consultants for capacity substitution when the objective of ADB’s assistance is behavioral change as a precondition for capacity expansion.

Much ADB project documentation appears to be written more for ADB’s benefit (in the form of evidence of compliance with policies to provide project justification) than for the EA’s or sector ministry’s benefit (which would take the form of implementation guidelines).

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Strengthening the Strategic Approach to CD. A recurring criticism in ADB's evaluations of its approach to CD assistance is that it has tended to be piecemeal, ad hoc, and issue-focused. The histories of CD reviewed in this study also show these features to varying degrees, particularly in the earlier years. Assistance of this nature does not encourage DMCs to develop their own long-term CD plans consistent with the strategic priorities of the sectors concerned. Such plans should inform the policy dialogue between ADB and DMCs and provide the basis for drawing up the CD components of sector road maps.

Selective Sector and Cross-Cutting Focus. This partly relates to the basis of constructive relationships between ADB and its clients. If the credibility and the professional respect in which DMCs' sector specialists are held by DMC agencies are to be maintained, ADB's sector expertise and experience cannot be spread too thinly. The quality of the sector policy dialogue that ADB is able to maintain with DMC governments depends critically on the knowledge, skills, and experience that ADB can bring to bear. The same applies to cross-cutting or economy-wide interventions: the focus should be on those 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 to support CD, with much of it intended to provide EAs with resources for training, networking, and knowledge management in general. Unlike project preparatory TA, however, TA for CD is not perceived as providing access to substantial investment funding. Consequently, EAs may attach lower priority to TA for CD because they consider it to be inherently less valuable. The fact that the EAs are not paying for it may reinforce this attitude and may help to explain why some EAs do not maximize the impact of staff training. Training that costs the recipient organization next to nothing is unlikely to be put to the best use. Ways need to be found of conferring value on training and other "soft" CD resources.

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Recommendations

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. This sample indicates that ADB has broadly been doing things right, even if this 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. ADB cannot provide learning in the way it can provide funds; it can only enable and facilitate the learning process. The conflation of these objectives in many of ADB's operations leads to unsatisfactory CD outcomes. The remedy is unlikely to be found in further

tinkering with the existing tool kit of CD interventions—adding yet more policies and themes to compliance checklists for operations staff. Rather, a change of course may be required. Organizational reform of EAs involves long-term changes in collective behavior and culture that reflect an internal recognition that things have to be done differently. The desire to change will come from exposure to new ideas and examples and the means to change will come from the acquisition of higher skills and additional 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, without internal conviction that change is needed, will have relatively little effect.

ADB needs to shift more responsibility for managing CD to its clients

Therefore, with regard to organizational CD in EAs, ADB needs to transfer from itself to its clients more of the responsibility for managing CD. ADB's CD interventions that are aimed at organizations should therefore become less direct, providing its clients with access to CD resources to support organizational change but leaving it largely to them to determine how they are used. Thus, the following recommendations are proposed for the management of the South Asia Department to consider.

Recommendation 1: Establish a capacity development fund (CDF) to finance CD in South Asian DMCs. The CDF's grant element would be used primarily for consulting services, training, networking, knowledge management, organizational 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 pilot projects in CD 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.

A capacity development fund

Recommendation 2: Give DMC governments responsibility for administering their national CDF allocations, and for allocating this among selected sectors. The choice of sectors would be agreed with ADB. The line ministries concerned would each assign an office to oversee the sector CDF allocation and manage that sector's overall CD program. Similar CD-mandated offices in the principal sector agencies would manage CDF allocations for organization-targeted CD.

Responsibility to governments

Recommendation 3: Establish, and progressively strengthen, a clear link between approval of investment project loans and evidence of DMCs' commitment to and progress with CD in the selected sectors. The existence of internally managed active CD programs, partly financed by the CDF, would thus become an entry threshold for ADB investment support (although welfare-critical projects could be exempted). This would increase the value that EAs and their ministries attach to CD. The ministries and EAs would, in effect, have to compete among themselves for finite CDF resources. These resources would thus have an opportunity cost because the ministries and EAs would need them, indirectly, to position themselves to qualify for investment support.

Link investment with commitment to and progress with CD

Recommendation 4: Steer the policy dialogue between ADB and DMCs using medium- and/or 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. This assessment would apply to all projects, not just ADB-supported ones, and to service delivery in general. The adoption of recommendation 3 would encourage the DMC partners in this dialogue to give the CD aspect their close attention. It should also move policy dialogue away from conditional commitments of support by ADB in return for DMC assurances about future performance toward recognizing and rewarding actual achievement, which is a sounder basis for operations.

Long-term road maps

Recommendation 5: Provide long-term funding for CD through the CDF, including core funding of selected curricula in education and training institutes. The latter would overcome some of the drawbacks of project-based training. DMCs would be encouraged to give priority to education/training providers that have significant potential to contribute to CD in areas of the economy on which ADB is focusing its support.

Long-term funding for CD

Recommendation 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. Close and frequent contact will be needed between RM and ministry/agency staff. This will particularly apply 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. The DMCs will require substantial expert support and RMs will need staffing accordingly. ADB staff will increasingly have to consider the value of CD services and the suitability of their providers from the perspective of the DMC stakeholders rather than from ADB's viewpoint.

The DMCs will require substantial expert support, and RMs will need staffing accordingly

Recommendation 7: Phase in the change of approach progressively, starting with a pilot project in one or more country-sector combinations, selected based on a history of strong performance associated with a good relationship with ADB. The changes in organization, staffing, and operations management required are quite substantial. Lending might slow down initially, while DMCs adjust to the new system of project preparation and implementation that is not compensated by the expected follow-on increase in absorptive capacity. Hence a pilot project is advised to explore the feasibility of the approach in the light of ADB's operating parameters. If the pilot project is successful, the CDF would be established and initial country allocations made from it. Sectors and EAs with good performance records would 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/EAs to improve their performance in CD.

Progressive phase-in