

Institutional Strengthening Framework A Guidance Note

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Many people in Asia and the Pacific live in situations with weak governance, ineffective public administration and rule of law, and civil unrest, which the Asian Development Bank (ADB) refers to as fragile and conflict-affected situations (FCAS).¹ ADB works with some of its developing member countries (DMCs) in such context. To enhance its effectiveness in these fragile situations, ADB has endorsed an operational plan for FCAS that focuses on state building and institutional strengthening.² A long-term institutional building framework customized to ADB's FCAS countries has been prepared as required by ADB's operational plan for FCAS.

Long-term institution building would be differentiated for conflict-affected countries (e.g., Afghanistan) and for fragile countries (e.g., Pacific island states). A results-based framework for measuring long-term institution building should also be covered as part of this work. The operational plan calls for adopting a change management approach in fragile countries; focusing more directly



on identifying and addressing capacity gaps; and recognizing the interaction among fragile situations, weak institutions, and development activities. The framework also considers the recommendation of ADB's special evaluation study on FCAS that capacity development plans should be identified during the preparation of country and sector strategies, based on the annual country performance assessment and the country context.³

¹ ADB. 2012. *Working Differently in Fragile and Conflict-Affected Situations: The ADB Experience*. Manila. www.adb.org/documents/working-differently-fragile-and-conflict-affected-situations-adb-experience

² ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila. www.adb.org/documents/operational-plan-enhancing-adb-effectiveness-fragile-and-conflict-affected-situations

³ ADB. 2010. *Asian Development Bank's Support to Fragile and Conflict-Affected Situations*. Manila. www.adb.org/documents/asian-development-banks-support-fragile-and-conflict-affected-situations

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Institutional Building as Key to National Development

Capacity development is “the process whereby people, organizations, and society as a whole unleash, strengthen, create, adapt, and maintain capacity over time.”

- *Organisation for Economic Co-operation and Development*

Institutional development is the creation or reinforcement of a network of organizations to generate, allocate, and use human, material, and financial resources effectively to attain specific objectives on a sustainable basis.

- *Institutional Development and Organizational Strengthening: Concepts & Framework*

Statebuilding is concerned with the state’s capacity, institutions and legitimacy, and with the political and economic processes that underpin state-society relations. The effectiveness of the state and quality of its linkages to society largely determine a country’s prospects for peace and development.

- *Department for International Development (United Kingdom)*



Building capable and legitimate institutions is now recognized globally as key to achieving development progress especially in FCAS countries. Leaders of the g7+ countries reiterated this view in the 2013 Dili Consensus, stating that “improving the effectiveness of the state and its institutions is critical to achieving national development goals.”⁴ ADB’s 2013 operational plan for enhancing effectiveness in FCAS emphasizes

the need to bring statebuilding and institutional strengthening to the center stage of ADB operations in FCAS countries (footnote 2). This is in line with ADB’s Strategy 2020, which identifies good governance and capacity development as key drivers of change and crucial to improving the cost-effective delivery of public goods and services to broaden inclusiveness.⁵

⁴ The Dili Consensus was adopted by the g7+ countries on 28 February 2013, as part of an international conference on the post-2015 development agenda for fragile and conflict-affected countries, hosted by the Government of Timor-Leste on 27–28 February 2013. See www.g7plus.org/

⁵ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila. www.adb.org/documents/strategy-2020-working-asia-and-pacific-free-poverty

Challenges and Successes of Capacity Development Efforts

ADB has undertaken extensive capacity development work in DMCs facing fragility and conflict. This work has covered a wide range of sectors, themes, and crosscutting issues, including policy and strategy formulation, project design and implementation, and strengthening core government functions and sector agencies' capacity. However, these capacity development efforts may not have been sustained in all cases, and in some cases assistance programs may have been ad hoc.

According to ADB's operational plan for FCAS, international organizations and donors have exhibited a weakness in statebuilding and institutional strengthening in countries where they operate. A joint effort to improve their performance is called for. The operational plan states that several factors have contributed to these shortcomings. First, it is not easy to assess the capacity needs of a country. This must be done in the context of an analysis of its political economy, an inherently complex and sensitive undertaking. Second, the process of developing institutions and building capacity is also long-term, and the obstacles to success are more complex in FCAS countries than in others. Third, a lack of government support and ownership of reforms is cited as a common factor resulting in the less successful ratings of ADB's sovereign projects in FCAS DMCs. Lack of sustainability, reflected by a "less than sustainable" rating, was also a common feature of most of the sovereign projects that were rated less than successful.

On the other hand, there have been successes even in FCAS DMCs. For example, in Nepal, a concerted effort in development, including uniform planning and monitoring mechanisms, has helped build capacity through effective management of the Nepal Peace Trust Fund. In the Pacific DMCs, ADB undertook an extensive study of capacity development efforts from 2006 to 2008.⁶ Success stories range across all FCAS sectors and themes. Factors that support success are summarized as follows:



- stakeholder engagement in design;
- demand and ownership of change;
- a 20-year or more long-term focus with a transition or exit strategy;
- an overall ongoing platform of consistent technical assistance to strengthen core government functions in FCAS DMCs, addressing individual, organizational, inter-organizational, and environmental capacity;
- intermittent, possibly phased assistance to allow domestic capacity to self-generate in between external assistance programs;
- a flexible, iterative learning program that can adjust and be modified as needed;
- a combination of local, political, and external technical knowledge advisory services;
- a participatory, transparent, and accountable approach;
- a communication strategy to demonstrate the benefits of improved core government functions from other countries, as well as the impact of technical assistance;
- the need for assistance to conform with prevailing cultural norms; and
- independent in-country monitoring and assessment.

⁶ ADB. 2008. Pacific Choice: Learning from Success. *Capacity Development Series*. Manila. www.adb.org/publications/learning-success

Three-Step Approach to Institutional Building

Building on the evidence of successful capacity development, a three-step approach is proposed, with each subsequent step designed to further identify, prioritize, and refine an understanding of FCAS institutional and capacity gaps and also to specify the means to address these gaps. The framework is based on established principles and priorities of development experiences that suggest a road map to contextualize proposed assistance.

While the same framework or set of principles can be applied to all FCAS, capacities and institutional structures are unique to each country. One-size-fits-all solution does not work in FCAS. Priority needs, activities, and intended outputs differ according to each country situation. Interventions may depend on the changing context and the institutional ability and flexibility to respond to emerging situations.

Development complexities and constraints may well be more intense in some situations than in others. While fragile situations may require continued building of capacity and institutions, conflict-affected situations may more likely require rebuilding efforts. However, for assistance to be results-focused, it must assess and strengthen all five stages of results-based public sector management—planning, budgeting, implementing, monitoring, and evaluating.⁷



STEP 1: INSTITUTIONAL PERFORMANCE REVIEW

A. Government Agencies (Central and Sector) and Core Government Functions

As determined by the 3-year study of capacity development in Pacific FCAS,⁸ the effectiveness of central and sector agencies and the performance of core government functions form a binding constraint

to building states and strengthening, if not restoring, the delivery of all public services.⁹ The operations of these agencies and core functions drive public and private sector activity, subnational activity, and the delivery of goods and services.¹⁰ It matters little what FCAS governments and development partners select as a priority sector for investment—education or health, agriculture or industry, or rural or urban development. If government agencies and core

⁷ ADB. 2012. *Results-Based Public Sector Management: A Rapid Assessment Guide*. Manila. www.adb.org/documents/results-based-public-sector-management-rapid-assessment-guide

⁸ ADB. 2008. *Pacific Choice: Improving Government*. *Capacity Development Series*. Manila. www.adb.org/publications/improving-government

⁹ As ADB's Pacific Approach states: "ADB will assist Pacific DMC governments to recognize and strengthen core government functions to help strengthen public sector effectiveness. Where core government functions are weak, the delivery of public services has also been weak." See ADB. 2009. *ADB's Pacific Approach 2010–2014*. Manila. www.adb.org/publications/adbs-pacific-approach-2010-2014

¹⁰ Central government agencies are usually the President or Prime Minister's Office, Ministry of Finance, Public Service Commission, or other public service management agency. Core government functions are central policy formulation, revenue generation and public finance management, public service administration, and regulation, especially the regulation of private sector development.

government functions are not operating sufficiently well, all investments are unlikely to be sustained, regardless of their priority.¹¹ In FCAS DMCs, these agencies and core government functions have struggled to perform well, at least for any sustained period. It is therefore proposed that long-term institution building in FCAS DMCs first focus on strengthening these government agencies and improving core government functions.

Much of the information needed to evaluate government agency and core government function performance and strengthening requirements is reflected in ADB's annual Country Performance

Assessment (CPA) and the World Bank's Country Policy and Institutional Assessment (CPIA).¹² The assessment of the performance of FCAS core government functions should be accompanied by the recognition of ongoing and planned government programs to improve performance and identify the functions or gaps that require further capacity development (Table 1).

This step 1A will result in the initial identification of those particular agencies and core government functions that require strengthening and that are not yet adequately addressed by government, possibly assisted by other development projects or programs.

Table 1: Performance Assessment of FCAS Government Agencies and Core Government Functions

Government Agencies	Core Government Functions	CPA Indicators and Other Sources	Gap Analysis
Chief Minister's Office and Ministry of Finance	Central policy formulation	Macroeconomic management, fiscal policy, debt policy, gender equality, policies and institutions for environmental sustainability ^a	What existing core government function capacity development programs? Who is assisting? Are there any gaps?
Ministry of Finance	Public revenue generation and finance management	Macroeconomic management, fiscal policy, debt policy, quality of budgetary and financial management, efficiency of revenue mobilization Other sources: public expenditure and financial accountability assessments ^b	
Central Human Resource Agency	Public service administration	Quality of public administration ^c	
Trade and Investment	Regulation for private sector development	Trade, finance sector, business regulatory environment Other sources: private sector assessments ^d	

^a Assessments of policy formulation were conducted by the Pacific Institute of Public Policy commissioned by ADB for the Marshall Islands, Federated States of Micronesia, and Palau in 2011.

^b Public Expenditure and Financial Accountability assessments were conducted in Afghanistan, 2008; Cook Islands, 2011; Kiribati, 2010; Marshall Islands, 2011; Federated States of Micronesia, 2012; Nauru, 2010; Nepal, 2008; Palau (planned); Papua New Guinea, 2005 and 2009; Samoa, 2006 and 2010; Solomon Islands, 2008 and 2012; Timor-Leste, 2007 and 2010; Tonga, 2007 and 2010; Tuvalu, 2007 and 2011; and Vanuatu, 2007, 2009, and 2013.

^c Ongoing efforts to develop indicators of the strength of public management systems are noted for future reference.

^d Private sector assessments have been conducted for Fiji in 2005 and 2013; Marshall Islands, 2003; Palau, 2007 and planned for 2014; Papua New Guinea, 2008 and planned for 2014; Samoa, 2008 and planned for 2014; Solomon Islands, 2005 and planned for 2014; Timor-Leste, planned for 2014; Tonga, 2008 and 2012; and Vanuatu, 2009 and planned for 2014.

CPA = country performance assessment, FCAS = fragile and conflict-affected situations.

Source: ADB FCAS Team.

¹¹ This argument is supported by the theory and experience of economic growth and development. See R. Duncan and S. Pollard. 2002. A Framework for Establishing Priorities in a Country Poverty Reduction Strategy. *Economics and Research Department Working Paper Series*. No. 15. Manila: ADB. www.adb.org/publications/framework-establishing-priorities-country-poverty-reduction-strategy

¹² ADB. Country Performance Assessment. www.adb.org/site/adf/country-performance-assessment; World Bank Operations Policy and Country Services. 2010. *Country Policy and Institutional Assessments: 2010 Assessment Questionnaire*. Washington, DC.



B. Governance and Political Economy

Standards of governance and the nature of the political economy can be binding constraints to strengthening institutions, capacity, and the general functioning of the state in FCAS countries, including central and sector agencies and core government functions. Therefore, it is necessary to take a reading of key governance and political economy issues in each FCAS country as they relate to the agencies and core government functions selected for strengthening.¹³

Some of the required governance and political economy information is available for FCAS countries in ADB's CPA and the World Bank's CPIA (i.e., property rights and rule-based governance; transparency, accountability, and corruption in the public sector). Other information on governance and political economy is available in ADB economic reports publications under the *Pacific Islands Studies* series, and binding constraints analysis; and in the works and publications of other organizations (e.g., the Australian National University, the United Kingdom's Department for International Development, the Lowy Institute for International Policy in Sydney, and the World Bank).

However, published information on governance and political economy is likely incomplete. Therefore, the selected core government function gaps should be subject to further assessment by key FCAS governance and political economy questions:

- How are decisions on the selected core government functions made and who takes part?
- Are decisions implemented? If not, what prevents implementation?
- Is there significant corruption and rent-seeking in the operation of selected core government functions?
- What is the history of any earlier efforts to reform the selected core government functions?
- Who are the key included and excluded stakeholders, political groupings, champions, and potential coalitions for reform, both internal and external? How do they affect institutional and capacity development with respect to the selected core government functions? Who benefits and who does not?
- Do different nongovernmental interest groups (e.g., private sector, nongovernment organizations, consumer groups, media) seek to influence the selected core government functions?
- To what degree do the legislature, judiciary, and executive arms of government interact with and influence the operation of the selected core government functions?
- Do private, social, traditional, cultural and/or historical interests deter or promote greater public gain with respect to the selected core government functions?
- Do the complexes of norms and behaviors that persist over time by serving collectively valued purposes affect the operation of selected core government functions?
- What is the public's perception of the institution performing the selected core government functions?

This step 1B will result in the initial identification of governance and political economy concerns that affect the improved performance of core government functions selected in Step 1A.

¹³ ADB conducts assessments and integrates capacity development into country programs and operations to ensure quality-at-entry and quality-at-implementation projects. See ADB. 2012. *Working Differently in Fragile and Conflict-Affected Situations: The ADB Experience*. Manila; ADB. 2013. *Guidance Note: Use of Political Economy Analysis for ADB Operations*. Manila; ADB. 2008. *Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan (GACAP II)*. Manila; and ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

STEP 2: IN-COUNTRY STRATEGIC INSTITUTIONAL ASSESSMENT

While some of the information for a strategic institutional and capacity assessment of FCAS countries may already be available, specific information gaps will remain. The performance review (see page 4) will require focused, more detailed, and more up-to-date assessments in each FCAS country.¹⁴

The additional questions regarding governance and political economy listed in Step 1B will most likely require further in-country investigation. One important gap in information that can be a key constraint to capacity and institutional development in FCAS countries is the second-to-last question: Do the complexes of norms and behaviors that persist over time by serving collectively valued purposes affect the operation of selected core government functions?¹⁵ State operations including core government functions become institutionalized within each country's set of norms and behaviors. Endemic public sector corruption or a systemic commitment by public servants to the demands of traditional hierarchy can greatly weaken management and delivery of public

services. In the Pacific DMCs, government budgets and civil service positions can be vulnerable to vested interests, leading to weak management and poor delivery of public goods and services.¹⁶

Additionally, the extent of women's inclusion in government's policy and decision making requires further attention. Women are often excluded from decision making in FCAS countries. Understanding the gender issues in governance will reveal how public resources are allocated and whether services take account of both women's and men's needs and interests.¹⁷

Once these information are collated—basic indicators, performance of preselected central agencies and preselected core government functions, and associated nature of governance and political economy—they can be fed into a strategic strengths, weaknesses, opportunities, and threats (SWOT) analysis of institutional and capacity strengthening in FCAS countries that will guide country and sector strategy formulation. A SWOT analysis to assist the formulation of country and sector strategies was piloted in Pacific FCAS countries in 2008. The proposed assessment is summarized in Table 2.

Table 2: FCAS Country and Sector Institutional and Capacity Strengths, Weaknesses, Opportunities, and Threats

Selected Core Government Functions	Levels of Potential Capacity Assessment	Strategy for Capacity Development
Policy formulation	Individual	<ul style="list-style-type: none"> • Strengths • Weaknesses • Opportunities • Threats Including political economy assessments of stakeholder interests (resources, incomes, prices); beliefs, culture, social behavior; gender inequality; ownership (leadership, relevance, vision); informed demand; local capacities; means to facilitate and manage change; degree of donor coordination; and compelling rules and regulations
Public finance management	Organizational, including rules and practices	
Public service administration	Institutional, including norms and behaviors	
Private sector development regulatory environment	Enabling environment, including orientation to results, time available, support for adaptation	

FCAS = fragile and conflict-affected situations.

Source: ADB FCAS Team.

¹⁴ Examples of public sector finance and administration capacity assessments for country partnership strategy formulation are available for the Federated States of Micronesia, Palau, and Solomon Islands. These assessments were prepared by ADB's Pacific Department in 2008.

¹⁵ N. Uphoff. 1986. *Local Institutional Development: An Analytical Sourcebook with Cases*. West Hartford, CT: Kumarian Press.

¹⁶ For a more detailed explanation of collective action, see R. Duncan. 2009. Kiribati's Political Economy and Capacity Development. *Pacific Studies Series*. Manila: ADB. www.adb.org/publications/kiribatis-political-economy-and-capacity-development

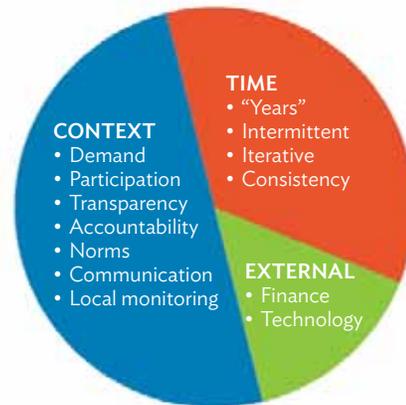
¹⁷ According to Duncan and Hassall, "... the compilation of indicators of the various forms that clientelist behavior can take does appear to add up to a fairly convincing, though circumstantial, conclusion that clientelism is alive and well in some Pacific island societies." See R. Duncan and G. Hassall. 2011. How Pervasive is Clientelist Politics in the Pacific? In R. Duncan, ed. *The Political Economy of Economic Reform in the Pacific*. *Pacific Studies Series*. Manila: ADB. www.adb.org/publications/political-economy-economic-reform-pacific

STEP 3: DESIGN OF AN INSTITUTIONAL STRENGTHENING FRAMEWORK

The outputs of Steps 1 and 2 will provide material for the design and subsequent monitoring and evaluation of a results-based institutional strengthening framework or theory of change for a technical assistance program aimed at strengthening selected government institutions and capacities. The key design characteristics should reflect the lessons of success stories described on page 3. These lessons are summarized in the following Figure.

A results-based technical assistance for FCAS institutional and capacity development should include measurable indicators of progress. These indicators can be at least partly selected from annual CPA ratings (see Table 1) and supplemented where other measures are available. The Indicators of the Strength of Public Management Systems, which is currently being designed, will also likely provide measurable indicators of progress.¹⁸

Design Framework for FCAS Institutional Strengthening



Note: To effectively build and strengthen institutions in FCAS, the local context factors require the greatest attention, followed by time factors and, to a lesser extent, external factors.

FCAS = fragile and conflict-affected situation

Source: ADB FCAS Team.

A Call for Long-Term Institutional Building

ADB seeks to develop a broad framework for long-term institution building that is customized to FCAS countries in line with the recommendations of the New Deal.¹⁹ A three-step results-based approach is proposed, based on the argument that the performance of government agencies (central and sector) and core government functions are the binding constraints to building states and strengthening, if not restoring, the delivery of all public and private goods and services in FCAS. Each step further identifies and refines the understanding of the capacity, institutional gaps, and requirements to improve the performance of selected government agencies and core government functions. This, in turn, leads to a prioritized, strategic assessment of FCAS institutions and capacities that can be used to design a results-based program of technical assistance in support of FCAS institutional strengthening.

Given the wide scope of institutional strengthening in FCAS countries, ADB may need to find ways to partner with other development agencies to undertake such capacity assessments and development programs. For instance, public financial management is one of the

weakest core government functions in FCAS countries. The assessment and capacity building needs in this area alone are so challenging that many development partners need to be engaged in a well-coordinated and structured manner to effectively support reforms.

To better support aid effectiveness in FCAS, institutional capacity building needs greater focus on core development sectors and institutions. Without specific interventions, it may be difficult to achieve clear and tangible capacity-building results and development effectiveness. Hence, any capacity-building effort requires focused, long-term, and sustained support.

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¹⁸ World Bank. Governance and Public Sector Management. Indicators of the Strength of Public Sector Management Systems (ISPMS) - A Multi-Donor Initiative to Measure Public Sector and Governance Institutions. <http://go.worldbank.org/8VL51MTD10>

¹⁹ International Dialogue on Peacebuilding and Statebuilding. *A New Deal for Engagement in Fragile States*. www.newdeal4peace.org/