

Capacity Development in South Asia



Asian Development Bank



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A study of ADB's capacity development interventions in South Asia.

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Foreword

I am pleased to present to you the first issue in the *South Asia Occasional Paper Series*.

The series is a new knowledge product by the South Asia Department (SARD) of the Asian Development Bank (ADB). The dissemination of knowledge and information about South Asia is an important function of SARD and this new series is designed to share research on development issues facing the South Asian region. The series aims at presenting topics relevant to South Asia to a wide audience, including policy makers, academics, and the general public. South Asia Occasional Papers will be made available on the ADB website and in hard copy.

This first issue deals with the important topic of capacity development (CD). Every year, ADB invests substantial resources in assisting its counterpart executing agencies to increase their capacities. The idea for this study stemmed from a view among senior SARD staff that there was considerable scope to enhance the efficiency and effectiveness of ADB's CD interventions in South Asia. The analysis is based on a sample of CD interventions 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 study analyzes the impact of ADB's CD interventions on the capacity of key executing agencies to perform their functions and how this impact could be further enhanced.

I am pleased to note that the study concludes that "Most of the sector/ country experiences selected for this study have been success stories for ADB. In South Asia, ADB has been doing better than it thinks it has."

However, the study still identifies important problems and lessons. To further enhance the impact of CD interventions in South Asia, the study proposes a major change in the way ADB supports CD.

The study

- suggests ADB needs to transfer from itself to its clients more of the responsibility for managing CD, and
- provides a detailed set of recommendations to guide the transition process to this new proposed role.

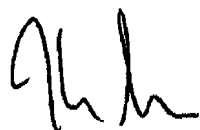
I am eager to see the ideas set out here introduced into our operations on the ground. To this end, and since many of the study's recommendations represent a significant break with past practice, I am keen to see the results of the pilot implementation of the proposed approach, which is currently being prepared in coordination with the Capacity Development and Governance Division of the Regional Sustainable Development Department.

I would like to thank SARD staff and consultants for preparing this important report. Martin Evans conducted the work under the guidance of

Richard Vokes, Narhari Rao, and Alain Borghijs. Jill Gale de Villa edited and designed the report with the assistance of Caroline Patacsil.

I also would like to thank all the staff at ADB headquarters and in the resident missions in Bangladesh, Nepal, and Sri Lanka who were generous with their time and knowledge in assisting the author undertake this study. The report has benefited from comments from numerous colleagues from different departments. Colleagues of the Capacity Development and Governance Division of the Regional Sustainable Development Department have assisted with excellent discussions. Points raised during the discussions that followed presentations at SARD Country Economists' Conference, for the Capacity Development Working Group, and to resident mission staff have been taken into account.

A special word of thanks also goes to the staff of the executing agencies visited who agreed to be interviewed and to complete the questionnaire.

A handwritten signature in black ink, appearing to read 'Kunio Senga', with a stylized, cursive script.

Kunio Senga
Director General

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Abbreviations and Acronyms

ADB	-	Asian Development Bank
BME	-	benefit monitoring and evaluation
BPDB	-	Bangladesh Power Development Board
CD	-	capacity development
CEB	-	Ceylon Electricity Board
CDF	-	capacity development fund
CDWG	-	Capacity Development Working Group
CLDP	-	Community Livestock Development Project
DESA	-	Dhaka Electricity Supply Authority
DESCO	-	Dhaka Electricity Supply Company
DFID	-	Department for International Development (United Kingdom)
DLS	-	Department of Livestock Services
DMC	-	developing member country
DOLIDAR	-	Department of Local Infrastructure and Development of Agricultural Roads
DRILP	-	Decentralized Rural Infrastructure and Livelihoods Project
EA	-	executing agency
HR	-	human resources
ICB	-	Investment Corporation of Bangladesh
LGED	-	Local Government Engineering Department
NEA	-	Nepal Electricity Authority
NWSDB	-	National Water Supply and Drainage Board
OECD	-	Organisation for Economic Co-operation and Development
OED	-	Operations Evaluation Department
NGO	-	nongovernment organization
PCR	-	project completion report
PGCB	-	Power Grid Corporation of Bangladesh
RIDP	-	Rural Infrastructure Development Project
RM	-	resident mission
RRP	-	report and recommendation of the president
SEC	-	Securities and Exchange Commission
TA	-	technical assistance
TCR	-	technical assistance completion report
UNDP	-	United Nations Development Programme

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.

Independence, combined with the professional challenge . . . 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.

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.

In a market-oriented business, . . . which bureaucratic government departments are ill-equipped to manage, . . . CD interventions . . . have proved difficult to sustain

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).

The responsibility for formulating “bankable” projects should be left to the EAs . . . [and] . . . the primary task of preparing the project themselves

The risk is that EAs may . . . use consultants for capacity substitution

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.

If the credibility and professional respect . . . held by DMC agencies are to be maintained, ADB's sector expertise and experience cannot be spread too thinly

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.

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

I. Background

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

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

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

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

Capacity Development

Definition

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

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

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

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

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

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

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

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

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

ADB's Model of Capacity Development

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

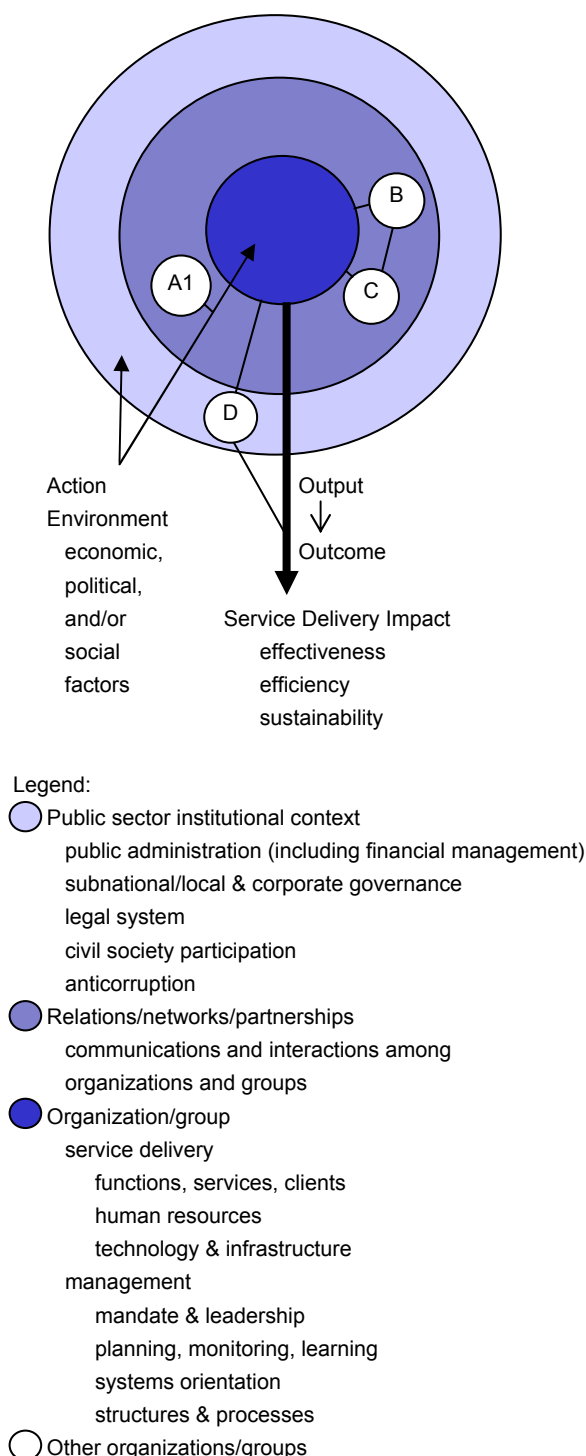
Figure 1 presents the analytical framework proposed by CDWG for formulating CD interventions. The figure shows CD as a system consisting of three main elements: the organization, interorganizational relations, and national institutions. In the center, reflecting CDWG's focus on organizations and groups,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

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

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

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

Figure 1: Framework for analysis of the Capacity Development situation



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Findings of Recent ADB Studies

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

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

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

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

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

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

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

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

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

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

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

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

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

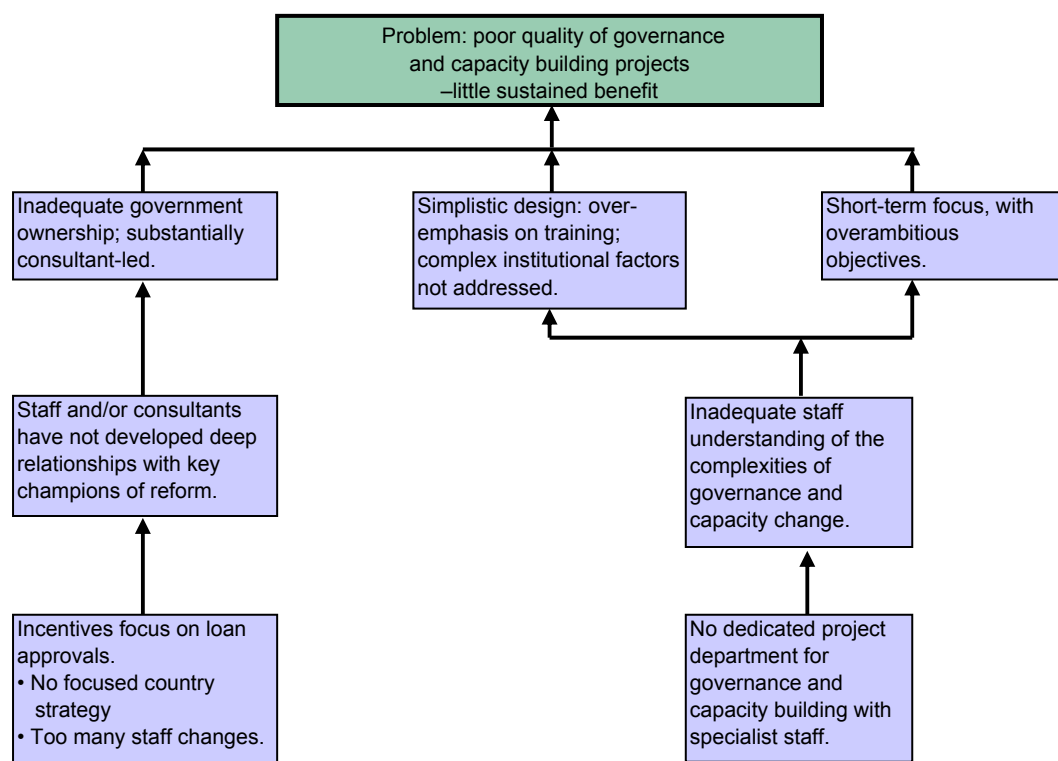
development goals and using monitorable indicators, and not by outputs, such as reports and seminars (ADB 2002e). This has been incorporated in ADB's standard operating procedures, to the extent that TA reports are required to include the TA framework matrix in the Managing for Development Results format.

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

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

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

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

Figure 2: Problem Tree Analysis for Governance and Capacity Building

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

Selectivity is Advisable in CD Operations.

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

Overall Assessment of ADB's CD Capabilities

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

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

The Study

Objective

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

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

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

Analytical Approach

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

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

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

Table 1: Assessment of the Quality of Capacity Development Interventions

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

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

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

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

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

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

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

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

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

Table 3: Assessment of the Executing Agencies' Capacities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. Capacity Development Experience

Rural Infrastructure Sector

CD Interventions

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

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

Changes in Sector Capacity

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

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

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

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

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

Assessment of ADB's CD interventions

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

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

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

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

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

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

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

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

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

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

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

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

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

EA = executing agency; TA = technical assistance.

Notes:

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

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

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

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

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

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

Good CD Practice Considerations

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

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

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

Principal Findings

The main conclusions are as follows.

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

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

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

Issues

Five significant issues emerged.

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

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

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

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

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

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

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

Power Sector

CD Interventions

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

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

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

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

Changes in Sector Capacity

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

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

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

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

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

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

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

Government continues to dominate NEA's board of directors.

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

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

Assessment of ADB's CD Interventions

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

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

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

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

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

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

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

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

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

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

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

requiring substantially fewer person-months of inputs than the sector restructuring/reform interventions (unbundling, corporatization, and regulation) in Bangladesh and Sri Lanka in 1998/2002 (Appendix 4).

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

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

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

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

Strategy. The OED report on the Bangladesh power sector characterizes ADB's strategy as piloting change and learning by doing (ADB 2003h). The report notes that although there has been no detailed longer term plan and ADB has not sought commitments to reform beyond short-term specific steps, the changes that have occurred accorded with reform principles agreed between ADB and the government (such as corporatization, promoting competition, and increasing private sector participation). While some of the CD interventions were clearly problem-focused, most were strategic in that they were essential to facilitating the short-term specific steps that had to be taken. The RRP for the Power Sector Development Program contains a sector reform road map that includes a substantial number of CD milestones, such as “salaries and wages made competitive,” “work culture improved,” and “delegation of powers to the management” (ADB 2003g). All the CD milestones marked for the 2005/2010 period are extensions of historical achievements rather than new or hitherto unattained objectives. How much this road map represents rationalization after the event or an update of earlier planning/strategy documents is not known.

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

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

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

Good CD Practice Considerations

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

Principal Findings and Issues

The main findings and issues are as follows.

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

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

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

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

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

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

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

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

Capital Markets Subsector (Bangladesh)

CD Interventions

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

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

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

Changes in Sector Capacity

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

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

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

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

Assessment of ADB's CD Interventions

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

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

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

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

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

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

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

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

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

Good CD Practice Considerations

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

Principal Findings and Issues

The four main findings and issues are as follows.

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

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

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

Livestock Subsector (Nepal)

CD Interventions

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

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

Changes in Sector Capacity

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

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

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

Assessment of ADB’s CD Interventions

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

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

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

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

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

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

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

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

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

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

Good CD Practice Considerations

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

Principal Findings and Issues

The four main findings and issues are as follows.

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

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

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

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.

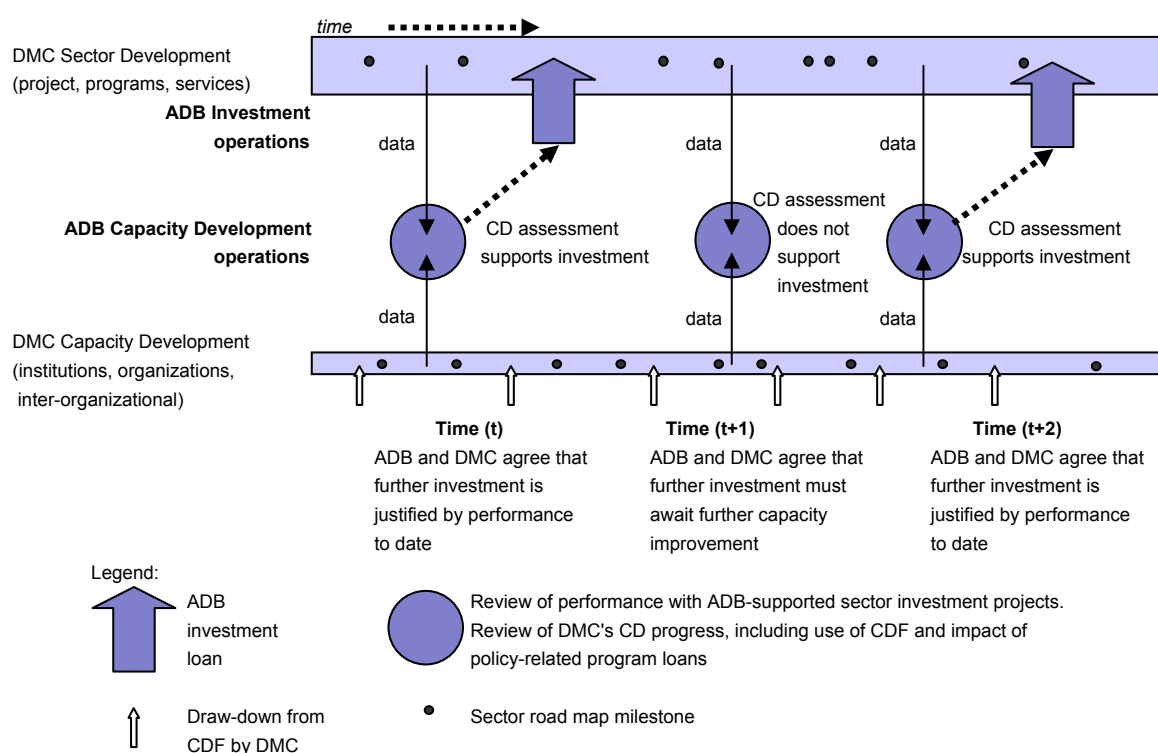
There will, of course, be important exceptions where the need for investment is urgent (e.g., to meet an emergency or to eliminate a critical technical bottleneck) and/or essential (e.g., as a fundamental prerequisite to meeting the basic needs of chronically poor households). In such cases ADB would 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

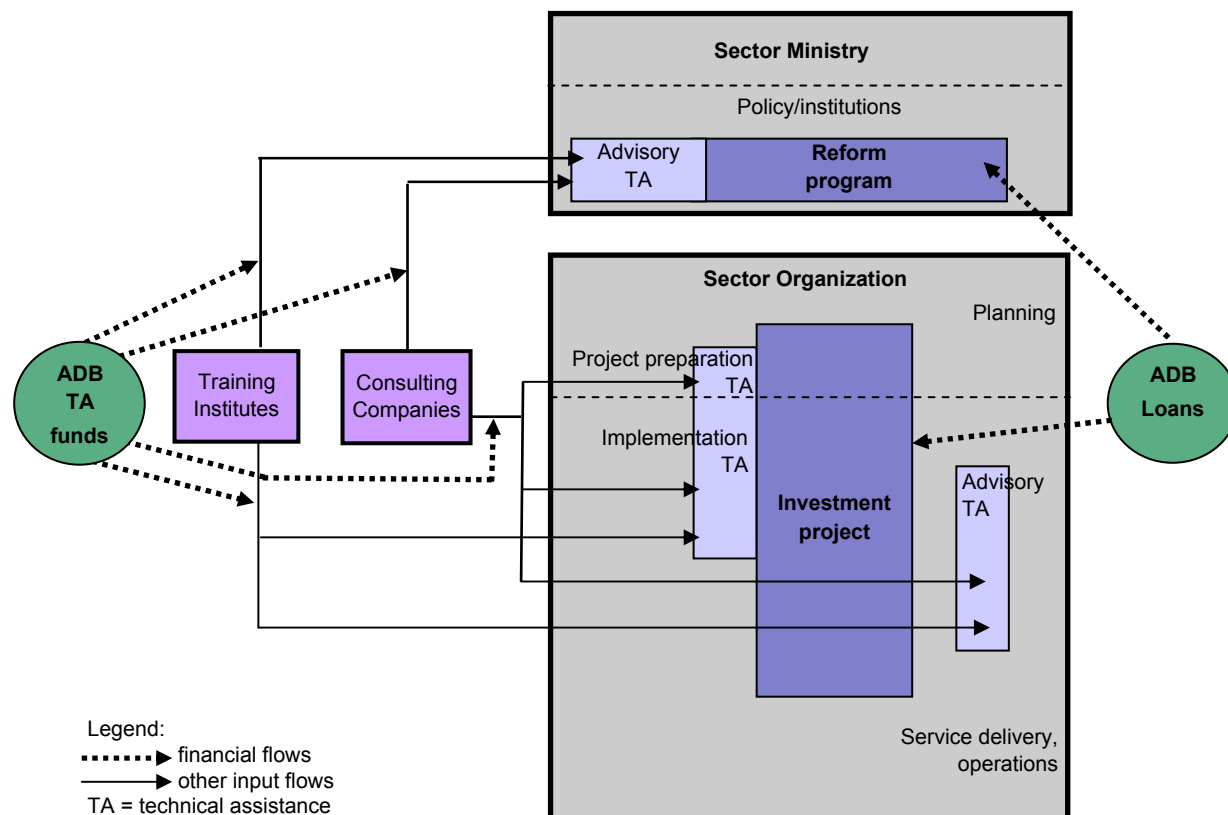
from ADB into DMC sectors are shown by the broken arrow lines in Figure 4, and the inputs to sector ministries and EAs that these flows finance by solid arrow lines.

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

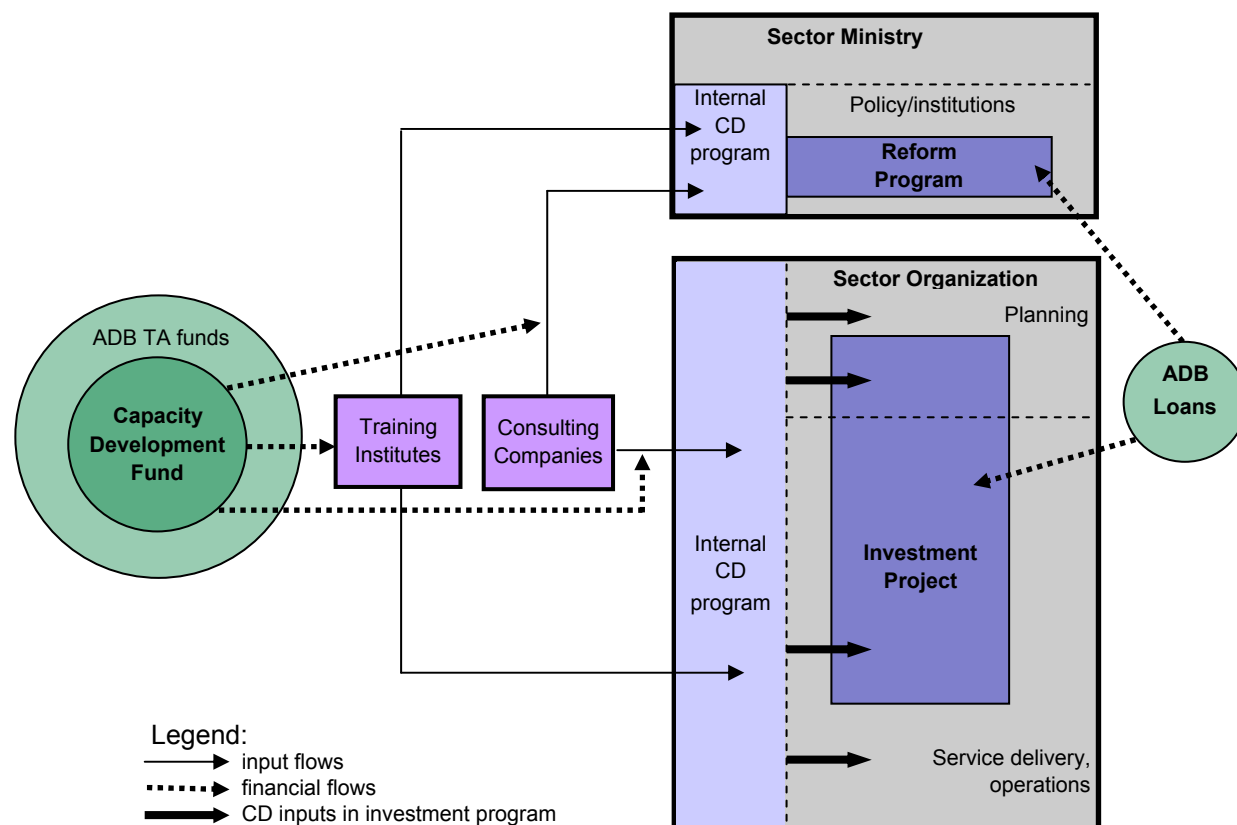
Key Role of Resident Missions. The RMs should be the focal points for ADB's engagement with the DMC offices in line ministries and sector agencies mandated to manage the CDF. The RMs should be given adequate authority to oversee administration of the country's CDF allocation.

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.

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Appendix 1: Questionnaire for Executing Agencies

Note: The covering letter from resident missions to the executing agencies (EAs) that accompanied the questionnaire said that the EAs' replies would be treated in confidence and the consultant's report would not identify particular EAS with particular responses.

NAME of your Authority/Department/Corporation: _____

TITLE of ADB project (TA or loan) and its START YEAR to which your answers below concerning the technical assistance component relate *(Please complete a separate questionnaire for each project):*

Title: _____
Date: _____

Date on which this questionnaire was completed: _____

SECTION 1 DIAGNOSTIC STAGE OF CAPACITY DEVELOPMENT

1. Before the main objectives, activities, and consultants' terms of reference for the project were agreed, do you think that ADB devoted sufficient time to understanding the strengths, weaknesses, potentials, and problems of your organization? *[please indicate one answer by highlighting with a color or underlining]*
 - (A) more than sufficient time
 - (B) time was about right
 - (C) insufficient time
2. How well do you consider that ADB correctly identified the key changes, both inside and outside your organization, that were needed in order to improve its performance?
 - (A) very well
 - (B) quite well
 - (C) not at all well
3. How closely were the staff of your organization involved in helping ADB analyze your organization's strengths, weaknesses, potentials, and problems?
 - (A) very closely
 - (B) quite closely
 - (C) not at all closely
4. How do you rate the description, in ADB documents relating to the project, of your organization's strengths, weaknesses, potentials, and problems?
 - (A) very accurate
 - (B) reasonably accurate
 - (C) not at all accurate
5. Did your organization learn anything important from ADB's analysis of it that your organization was not fully aware of before and, if so, what? *[please explain below]*

SECTION 2 DESIGN STAGE OF CAPACITY DEVELOPMENT

6. Where did the central ideas or concept(s) of the project mainly originate?
 - (A) from ADB
 - (B) jointly from ADB and ourselves
 - (C) from ourselves
 - (D) from elsewhere (e.g., other government departments, other projects, other aid agencies)
7. How closely were the main objectives of the project aligned with government policies and your organization's own priorities?
 - (A) very closely
 - (B) fairly closely
 - (C) not at all closely
8. Before the design of the project was finalized, how much time did your organization and ADB spend together reviewing past experiences with TA and loan projects?
 - (A) a lot of time
 - (B) a fair amount of time
 - (C) not much time
9. How closely were the staff of your organization involved in determining the objectives, activities, and consultants' terms of reference for the project?
 - (A) very closely
 - (B) fairly closely
 - (C) not at all closely
10. How well did the objectives, activities, and consultants' terms of reference for the project, as finally approved by ADB, fit the needs of your organization?
 - (A) very well
 - (B) fairly well
 - (C) not at all well
11. At the time when the project was designed with ADB assistance, how realistic did its objectives appear to be (e.g., in terms of how quickly performance improvements would be achieved, or the scale or extent of improvements)?
 - (A) seemed realistic at the time
 - (B) some aspects seemed realistic, some did not
 - (C) seemed unrealistic
12. In relation to the needs of your organization to acquire new knowledge and skills, how appropriate were the methods and tools proposed for this in the technical assistance component of the project (e.g., attending courses at training institutions, on-the-job training by consultants, study visits to similar organizations, staff exchanges with similar organizations, etc.)?
 - (A) most methods and tools proposed were appropriate
 - (B) some were appropriate, others were not
 - (C) most were not appropriate

If the answer is C, please explain why below:

13. Was the emphasis in the project on using consultants to help build capacity in your organization about right?
- (A) no, much of the proposed input by consultants was unnecessary
 - (B) yes, the emphasis was about right
 - (C) no, more use should have been made of consultants
- If the answer is A or C, please explain why below:*
14. Was the proposed balance in the project between using international and domestic consultants about right?
- (A) no, too much input by international consultants
 - (B) yes, the emphasis was about right
 - (C) no, not enough input by international consultants
15. How would you rate the quality of the proposed technical assistance action plans, in terms of the clarity of objectives, the logic of the activities selected for achieving those objectives, the sequencing of these activities, and the usefulness of the indicators chosen to measure progress?
- (A) good
 - (B) more or less satisfactory
 - (C) poor
- If the answer is C, please explain the main reason why below:*
16. To what extent did the technical assistance component of the ADB project take account of technical assistance being provided by other aid agencies?
- (A) ADB technical assistance was carefully integrated with other technical assistance
 - (B) integration with other agencies' technical assistance was reasonably satisfactory
 - (C) there was much unnecessary overlap with, and/or significant unfilled gaps between ADB's and, other agencies' technical assistance

SECTION 3 IMPLEMENTATION STAGE OF CAPACITY DEVELOPMENT

17. To what extent did the technical assistance component of the project seek to strengthen your organization's capacity to implement projects and deliver services by creating new management structures and to what extent did it use existing management structures?
- (A) mainly relied on setting up new structures
 - (B) mainly relied on using existing structures
 - (C) a mixture of both approaches
18. Did the technical assistance component of the project specifically use a management system known as "Results Based Management (RBM)" to achieve its objectives or was another management system used?
- (A) RBM was definitely used
 - (B) RBM or a similar system may have been used
 - (C) RBM was not the system used
19. How effective was the technical assistance component of the project in helping your organization acquire relevant new knowledge and skills?
- (A) very effective
 - (B) effective in some areas, ineffective in others
 - (C) not at all effective
- If the answer is C, please explain the main reason why below:*

20. How useful were the consultants engaged for the technical assistance?
(A) very useful
(B) fairly useful
(C) not very useful
If the answer is C, please explain the main reason why below:
21. What were the principal ways that your organization used to acquire for its own staff the knowledge and skills that the consultants brought to the project? *[please rank in order of importance, using 1, 2, etc]*
(A) workshops on project issues or tasks
(B) in-house training courses devised by the consultants
(C) outside training courses recommended by the consultants
(D) assigned staff working alongside the consultants
(E) others [please specify below]
22. How conducive is the work environment or management culture of your organization to encouraging staff to acquire new knowledge and skills?
(A) very conducive
(B) reasonably conducive
(C) not at all conducive
If the answer is C, please explain the main reason why below:
23. How willing were staff in your organization to take on the additional work that participation in the technical assistance activities of the project required?
(A) very willing
(B) fairly willing
(C) not at all willing
If the answer is C, please explain the main reason why below:
24. In practice, how difficult was it for your organization to allocate key staff resources to supporting the technical assistance activities?
(A) no major problems; the technical assistance was given priority
(B) quite difficult, but generally the problems of allocating staff time to technical assistance activities were overcome
(C) very difficult, due to competing priorities for staff resources
25. How well did middle ranking and junior staff in your organization understand the main objectives of the technical assistance?
(A) very well
(B) fairly well
(C) not very well
If the answer is C, please explain the main reason why below:
26. Where did the impetus and drive to keep the technical assistance activities progressing and make them a success mainly come from?
(A) from leaders within the organization
(B) from consultants
(C) from ADB staff

27. What were the main problems that arose during implementation of the technical assistance?
[please insert below]
28. In which of the following areas has your organization's performance improved most in the last 10 years (for whatever reason)? *[please rank in order of significance, using 1, 2, etc]*
- (A) strategy and planning
 - (B) operating efficiency
 - (C) financial management
 - (D) staff development
 - (E) number of end-users/customers/clients/beneficiaries serviced
 - (F) scope, quality, and reliability of services provided
 - (G) governance
 - (H) accountability to stakeholders, particularly end users/customers /clients/beneficiaries
 - (I) others *[please list below]*

SECTION 4 GENERAL

29. How does your organization rate the technical assistance provided by the project in terms of enabling your organization to improve its performance in the future?
- (A) substantial impact
 - (B) some impact
 - (C) little or no impact
- If the answer is C, please explain the main reasons below:*
30. To what extent has the performance of the technical assistance provided by the project been adversely affected by factors outside the control of your organization and ADB?
- (A) not very much affected
 - (B) affected to some extent
 - (C) greatly affected
- If the answer is C, please list the main factors below:*
31. In the view of your organization, what are the main ways in which the ADB's technical assistance for capacity development could be made more effective in the future? *[Please set out below]*
32. Does your organization consider that ADB, in its capacity development support, places too little or too much reliance on technical assistance?
- (A) too little reliance
 - (B) about right
 - (C) too much reliance
- If the answer is C, please explain below what other forms of support for capacity development might be more effective than technical assistance.*

THANK YOU FOR ANSWERING THIS QUESTIONNAIRE

Appendix 2: Documents Reviewed Relating to South Asia Operations

Country Sector	Executing Agency	Operation	Project Title	Loan No.	Proj. No.	Date		RRP	TCR/PCR	PPAR	Rating ^a
						TAR					
Bangladesh	Financial SEC	TA	Institutional Strengthening of SEC		26455	Sep-03					
		TA	Institutional Strengthening of SEC				Nov-96				GS
		Loan+TA	Capital Markets Development Program	1580	24103	Oct-97		Oct-97			
		TA	Capacity Building of SEC and SE		24103			Apr-03			PS
		Loan	Capital Market Development Program Loan	1580	33226	Nov-00		Aug-03			PS
		TA	Capacity Building of SEC and Selected Capital Market Institutions		36197	Dec-03					
	Power	TA	Preparing Financial Markets Governance Program								
		Loan+TA	Rural Electrification Project		27149		May-95			Dec-03	HS ^e
		TA	Financial Management Upgrade of BPDB and DESA		2004			Mar-96			GS
		Loan+TA	Ninth Power Project ^b	1505	21182		Nov-96				
Infrastructure	LGED	Loan+TA	Ninth Power Project—Request to use Loan Surplus for Staff Compensation	1505	21182						
		Loan	Dhaka Power System Upgrade Project		28025		Nov-99				
		Loan+TA	West Zone Power System Development Project		31296		Nov-01				
		TA	Corporatization of DESA		34039	Nov-02					
		Loans	Power Sector Development Program		36205		Nov-03				
		Loan+TA	Rural Infrastructure Development Project		Ap-62						
		Loan+TA	Rural Infrastructure Development Project ^c	908	859		Sep-88				
		Loan+TA	Rural Infrastructure Development Project ^c	908	21086			Jun-99		none	GS
		Loan+TA	Second Rural Infrastructure Project	1215	23328		Nov-92	Jul-02			S+S
		Loan	Second Rural Infrastructure Project ^d		28023		Oct-97				
Nepal	Power NEA	Loan	Third Rural Infrastructure Project		31304		Nov-02				
		Loan	Rural Infrastructure Improvement Project								
		Loan+TA	Kali Gandaki 'A' Hydroelectric Project		26362		Jun-96				
		TA	Management Reforms & Efficiency Improvements for NEA		32241	Dec-00					
		TA	Institutional Support for Distribution Planning & Commercial Ops.NEA	1011	18802					Jun-04	PS
		TA	Preparing Rural Electrification & Renewable Energy Project		35349	Dec-04					
		TA	Restructuring of NEA		37196	Jan-05					

Country Sector	Executing Agency	Operation	Project Title	Loan No.	Proj. No.	Date		Rating ^a
						TAR	RRP	TCR/PCR
Livestock	DLS	Loan+TA	Livestock Development Project		394		Dec-79	Sep-88
		Loan+TA	Livestock Development Project		445			Mar-90 NS
		Loan+TA	Second Livestock Development Project		18007		Dec-95	Dec-98 PS
		Loan	Third Livestock Development Project		25054		Aug-96	
		TA	Preparing the Community Livestock Development Project		35170	Dec-02		
Infrastructure	MLD/DOLIDAR	Loan	Community Livestock Development Project		35170		Nov-03	
		TA	Institutional Strengthening for Rural Infrastructure Development		29520	Apr-96	Feb-99	GS
		Loan	Rural Infrastructure Development Project	1450	25322		Jun-96	
		Loan+TA	Decentralized Rural Infrastructure & Livelihoods Project	2092	30232		Sep-04	
Sri Lanka Power	CEB	TA	Preparing a Power Sector Restructuring Project		30207	Jan-99		
		Loans	Power Sector Development Program		30207		Oct-02	
		TA	Restructuring the Power Sector-Phase II		35006	Apr-02		
		TA	Energy Sector Master Plan		36177	May-03		
		TA	Preparing Rural Electrification and Network Expansion Project		34323	Dec-03		
Infrastructure	NWSDB	Loan+TA	Second Water Supply and Sanitation Project ^f		23209		May-93	Aug-00
		TA	Rural Water Supply and Sanitation Sector Project		28153	Jul-96		
		Loan	Third Water Supply and Sanitation Project		28153		Oct-97	
		TA	Accounting Review of NWSDB ^g			May-00		
		TA	Preparing Secondary Towns Water Supply & Sanitation Project		31501	Dec-00		
		Loan	Secondary Towns Water Supply & Sanitation Project		31501		Dec-02	
		TA	Strengthening Regulatory Framework for Water Supply & Sanitation		34315	Dec-02		

BPDB = Bangladesh Power Development Board, CEB = Ceylon Electricity Board, DESA = Dhaka Electric Supply Authority, DESCO = Dhaka Electricity Supply Company.

DLS = Department of Livestock Services, DOLIDAR = Department of Local Infrastructure Development and Agricultural Roads, LGED = Local Government Engineering Department,

MLD = Ministry of Local Development, NEA = Nepal Electricity Authority, NWSDB = National Water Supply and Drainage Board, PCR = project completion report, PGCB = Power

Grid Corporation of Bangladesh, PPAR = project performance audit report, RRP = report and recommendation of the president, SE = stock exchange, SEC = Securities and

Exchange Commission, TA = technical assistance, TAR = technical assistance report, TCR = technical assistance completion report.

Notes:

^a Ratings: GS = generally successful, HS = highly successful, NS = not successful, PS = partly successful, S = successful.

^b TA Valuation of assets of Dhaka Electricity Supply Company

^c TA 1043-BAN Training in feeder road construction and maintenance

^d TA 1809-BAN Strengthening LGED's management capability

^e Sector Assistance Program Evaluation; SAP: BAN 2003-30, December 2003

^f TA 1900-SRI Management strengthening of NWSDB; October 1993

^g Small-scale TA

Appendix 3: Executing Agencies—Capacity Development Interventions and Capacity Growth

Local Government Engineering Department (LGED), Bangladesh

Assistance Related to Capacity Development (CD) from the Asian Development Bank (ADB): 1988 to the present

The Rural Infrastructure Development Project (RIDP, loan, approved in September 1988, [ADB 1988a and c]). The loan included advisory technical assistance (TA) to strengthen the capability of local contractors and government staff to construct all-weather roads, manage and maintain equipment, and maintain feeder roads. The Local Government Division of the Ministry of Local Government, Rural Development and Co-operatives was the executing agency (EA) and LGED was the implementing agency.

The project completion report (PCR) concluded that the consultants' input, which included 62 training workshops and seminars, was very useful in upgrading the capability of LGED staff and local contractors for road construction and implementation (ADB 1999b). The PCR noted that the TA has had "a significant impact on the construction efficiency and quality in the RIDP and the ongoing" subsequent RIDP2 and RIDP3. Generally, LGED was considered at the time to have adequate implementation capacity due to its long experience in implementing several donor-funded projects. However, LGED needed clearer priorities for road design standards and to be more responsive to the need for benefit monitoring and evaluation activities, for which LGED lacked the necessary expertise and resource allocation. The PCR rated the project as "generally successful."

The Second Rural Infrastructure Development Project (loan, approved in December 1992 [ADB 1992a and b]). The RIDP2, which was very similar in scope to the first RIDP, included advisory TA¹ to strengthen LGED's planning, management, and information systems.

During the 4 years of the TA, which came to be widely known as "MANCAPS," the consultants analyzed LGED's strengths, weaknesses, opportunities, and risks and prepared an action plan and organizational manual for the agency. Reduced dependence on institutional support projects and the establishment of key posts in LGED to manage an increasing portfolio of more than 50 projects was proposed. Recommendations covered all major areas of LGED including management, human resources (HR) development, planning and financial management, monitoring and evaluation, and engineering management. Most recommendations were adopted, including the establishment of a training unit in LGED.

The PCR concluded that there had been a "noticeable improvement in LGED's financial management system and that the consultants' output was an invaluable document to both LGED and ADB" (ADB 2002a). The TA was rated "successful." However, the PCR noted that the government overregulated and gave insufficient autonomy to its departments concerning remuneration and promotion. The PCR recommended that LGED's personnel management systems be streamlined and modernized, while appreciating that such civil service reforms would cut across all government agencies and were complex matters that might not be feasible to address during the TA period.

Institutional support services were also provided under the loan for (1) strengthening LGED's training programs, monitoring systems and supervisory development and to train contractors, local government representatives, and LGED staff; and (2) maintenance of rural infrastructure by setting up a special cell at the center with branch networks. Infrastructure maintenance was of great concern to ADB and other donors that had been in policy dialogue with government about this for many years.

¹ TA 1809-BAN Strengthening LGED's Management Capability.

The PCR for the project assessed the project's capacity building as "very appropriate," and the TA as being very useful in equipping LGED staff to manage the project (ADB 2002a). The training program for contractors was considered "excellent." Overall, the project was rated "successful."

The Third Rural Infrastructure Development Project (TA, approved in March 1996 [ADB 1996g]). The TA aimed to help the government formulate the project. Although LGED staff had been trained in rural development under the ongoing Rural Employment Sector Programme II, financed by Swedish and Norwegian aid, LGED needed "more practical experience in socio-economic aspects through project preparation and implementation." The TA covered verification of data collected by LGED, review of LGED's feasibility studies, assessment of local level needs and priorities, and the preparation of the project in consultation with all stakeholders.

The Third Rural Infrastructure Project (loan, approved in October 1997 [ADB 1997d]). Among the lessons learned from previous projects were the needs (1) for continued institutional strengthening of LGED's management structure and systems, and development of its human resources to meet the increasing demands on the agency; (2) for strengthening of the role and capacity of local government institutions in rural infrastructure planning and implementation, operations and maintenance (O&M), and financing; (3) for more participatory approaches in rural infrastructure projects; and (4) to ensure high technical standards by training local contractors to improve their technical and managerial skills, provide adequate laboratory facilities, assure adequate supervision of LGED works, and provide sufficient LGED staff capacity at the field level. RIDP3 planned to provide additional training to staff in LGED headquarters and district training centers, and consulting services to "upgrade management and technical staff of LGED and local government bodies." In addition to using the ongoing Institutional Support Project (funded by the Swedish International Development Agency [SIDA], a new training unit was to be established in LGED. Overseas study tours and short courses were to be provided for core, active project staff on a limited basis.

The report and recommendation of the president (RRP) concluded that "LGED has developed into an efficient organization for the provision of local infrastructure with a reputation for implementation efficiency . . . [and is] . . . recognized by the external funding community as the core agency for developing and maintaining rural infrastructure."

The Rural Infrastructure Improvement Project (TA, approved in September 2001 [ADB 2001e]). LGED submitted a feasibility study based on the three earlier RIDPs. However, the proposed project was limited to selecting roads and market subprojects, based on economic returns. While recognizing that the study demonstrated a strong commitment on the part of LGED, ADB considered that more work was needed to improve the social, environmental, and economic analyses and to evaluate the project's poverty reduction impact. An important lesson learned from earlier projects was that the strong involvement of local stakeholders in planning and design will increase the usefulness, acceptance, and maintenance of rural infrastructure. Under the government's decentralization policy, union councils (each is a council of several villages) were to plan, operate, and maintain local infrastructure, but their capacity to do so was limited. The TA was accordingly tasked with preparing a project with three components: (1) stakeholder capacity building, (2) infrastructure improvement, and (3) institutional support for effective management. The TA report was to include a capacity development (CD) plan.

The Rural Infrastructure Improvement Project (loan, approved in November 2002 [ADB 2002d]). Under the LGED capacity building component, staff members were to be trained in decentralized and privatized maintenance, procurement, financial management, and, particularly, the use of participatory approaches to infrastructure development. The need for further institutional reform was to be assessed, including clearly demarcating road construction and maintenance responsibilities between the Roads and Highways Department, LGED, and union councils. LGED staff members need nontechnical training to meet "the growing demand for them to perform the functions of facilitators and social mobilizers." The RRP noted that LGED needs to move gradually away from its role as a planner and implementer of infrastructure facilities at the local

level to an enabling role. Increasingly, its primary task would be to facilitate and assist local bodies such as union councils to take responsibility for the planning, implementing, and managing infrastructure at the grassroots level and to secure greater involvement of the private sector.

The project is intended to improve local governance by training union council members in their roles and responsibilities and supporting a pilot program for introducing participatory mechanisms for union-level governance. Local governance training would be provided in 5-day courses for all 899 union councils, with additional 5-day courses for 32 pilot union councils. An action plan for local governance would focus on securing improved administrative and management responsibility for all union councils, and, in 32 pilot union councils, improved coordination and collaboration between subdistrict administration and union councils; participatory consultation with stakeholders (including women, nongovernment organizations [NGOs], and community leaders); and local resource mobilization.

Relative Magnitude of ADB's Assistance (for all purposes)

During 1988–2002, approximately \$1.5 billion was committed to rural infrastructure (roads and markets) projects in Bangladesh by 16 agencies other than ADB (ADB 2002d, Appendix 1). The loans for the four ADB-supported investment projects referred to in the previous section totaled \$307 million.

Evolution of LGED's capacity

For several years, ADB has regarded LGED as an efficient implementer of local infrastructure projects. Other donors have clearly thought so too, and the high demand from external development financiers as well as from the government for LGED to act as an EA may account for ADB's repeated assessments that further strengthening of LGED is still required.² It is currently managing nearly 70

projects and cooperating with over 20 development partners. The other major factor relevant to recent capacity assessments is the ongoing transformation of LGED's role from primary provider to facilitator and enabler. LGED is changing from being basically an engineering organization to acting as a change agent itself at local government and community levels with regard to the transfer of responsibility for infrastructure planning, construction, and maintenance. LGED now tells its staff that they are in their job for two reasons: first, to provide rural infrastructure; and second, to assist local government. The principal challenge is to ensure that existing infrastructure is adequately maintained.

LGED's capacity has grown enormously since the early 1980s when it was a small bureau, undertaking food-for-work programs. Its conversion to its present status is attributed in large part to particularly strong leadership by the first head of LGED during most of the 1990s. The individual concerned had influence with the government, was personally committed to changing LGED for the better, and could inspire his staff. Larger projects were taken on, involving most rural infrastructure except highways and main roads, and the building of a strong management team from the center down to the subdistrict level. Much support came in from donors. This has meant that while LGED does not lack for financial resources, there is some risk that service quality may be sacrificed for quantity as more new projects are added to LGED's portfolio.

Although its staff are subject to civil service employment conditions, an informal system of perks and incentives established by the original director general (and probably also reflecting the substantial involvement of external donors) persists and helps to motivate staff. As important are the relatively progressive HR policies of LGED, which grooms people for suitable positions in the organization. Managers for new projects are carefully selected, prepared prior to the projects' inception, and expected to stay in the job until project completion. Transfers are relatively infrequent and staff turnover is low. The present chief engineer, for example, is only the third person to hold his position since LGED was created.

² The World Bank is supporting the Institutional Strengthening Action Plan, which is currently under way.

Unfortunately, the stability in personnel deployment is not matched by local government staff. (In this respect, LGED regards the use of covenants in external loan agreements to put pressure on the central government to provide more support for local government as very helpful.) Of LGED's staff, 90% work at the local level, 9% at district and regional levels, and only 1% at headquarters. This allows for intensive supervision that helps ensure the quality of civil works, as does the rapid reporting of substandard performance that becomes possible when local government is closely involved. LGED has only one staff association, as contrasted with the multiple unions that represent staff in some other government agencies.

Training is taken seriously, with a training calendar devised each year for all staff, including project directors, and monitored by headquarters. Training of trainers for local government is assuming greater importance, but can sometimes overstretch the capability of engineers. A comprehensive training needs assessment is conducted every few years. Trainees who have participated in external training programs are expected to make presentations to other staff to ensure dissemination of their newly acquired knowledge. Counterparts are assigned to consultants on a full-time basis.

LGED considers ADB to be one of its better partners. The long-established presence of the Bangladesh Resident Mission has undoubtedly helped foster a constructive relationship.

Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR), Nepal

CD-Related Assistance from ADB (1996 to the present)

Institutional Strengthening for Rural Infrastructure Development (TA, approved in 1996 [ADB 1996g]). The TA, comprising consulting services and training, aimed at strengthening the technical capabilities of the Ministry of Local

Development and local institutions at regional, district, and village levels. The TA was intended to help the government formulate a long-term strategy, prepare action plans, develop monitoring systems, organize awareness campaigns, assess training needs, and organize training programs. The International Labour Organization (ILO) provided the necessary consulting services and the outputs mainly pertained to technical practices concerning labor-based rural road construction and equipment inventories, as well as the draft national strategy. A significant result of the TA, in line with the strategy, was the formation of a new Department of Local Infrastructure Development and Agricultural Roads (DOLIDAR). The PCR rated the TA "generally successful," noting that it had brought about "a notable change in the work attitude of technical staff of the Ministry of Local Development and local administrations" so that the new DOLIDAR now had "a pool of reasonably motivated staff." The PCR attributed success to the close working relationship established with the EA as a result of close monitoring and assistance from the resident mission (ADB 1999b).

The Rural Infrastructure Development Project (RIDP) (loan, approved in 1996 [ADB 1996c]). The RRP for this investment project pointed to lessons learned from audited ADB agriculture and agro-industries projects in Nepal, including the needs for (1) simple implementation arrangements with the minimum number of EAs; (2) active involvement of beneficiaries in planning, implementation, and monitoring; (3) intensive ADB supervision of implementation; (4) advance action on deploying staff for institution building activities; and (5) the use of local level groups and low-cost facilities as much as possible so as to keep the project within local capabilities. Strong commitment and ownership from the government was also cited as being essential. Specific experiences with other rural road projects in Nepal underlined the importance of strong community support, public awareness about environmental protection, output-based wage payments, toll collection for partial financing, and control over vehicle use.

The project aimed to build on successful experience with labor-based and environmentally friendly rural road construction methods within the management structure of decentralized local

government that had been established in Nepal. The consulting services provided, operating in parallel with the institutional strengthening TA referred to in the previous paragraphs, included design and supervision of the civil works components led by international consultants to ensure efficient and timely project implementation. Other tasks by domestic and international consultants were concerned with developing and applying construction and maintenance systems at the local level, involving road user committees (which experience from Swiss and German assistance has shown to be critical to success) and other community-based groups.

The Decentralized Rural Infrastructure and Livelihood Project (DRILP, loan, approved in 2004 [ADB 2004d]). The RRP for the DRILP lists “(1) community development and rural livelihood restoration [following civil conflict], (2) capacity building and decentralized governance, (3) rural transport infrastructure, and (4) project management services” as the project’s objectives. The order in which these are listed reflects the priorities. The input of consulting services was to be substantial—70% more than that planned for RIDP—as was the input of NGO services. This reflects lessons learned from RIDP, including the needs for (1) rigorous selection and design of subprojects, (2) intensive supervision of civil works, (3) CD of district development committees and of private sector organizations involved, (4) improved awareness of the need for maintenance and skills for implementing it, (5) better social mobilization procedures, and (6) stronger monitoring. These all require increased management, advisory, and facilitation inputs. The ultimate objective was to assist DOLIDAR and district agencies to efficiently contract out much of their work.

The loan, from which the bulk of the consulting services was to be financed, was accompanied by a small institutional development TA intended to assist the government with further strategy and policy formulation with regard to decentralized rural infrastructure development. The RRP states that the “highest priority is to help DOLIDAR instill a maintenance culture in district development committees, and establish effective planned rural road maintenance practices.”

Relative Magnitude of ADB’s Assistance (for all purposes)

The RRP for the DRILP estimated that, since 1979, external donors had committed about \$300 million to Nepal’s rural infrastructure sector, of which ADB had accounted for roughly 30%. ADB support goes back further than that of most other donors, if rural/agricultural development projects such as the Integrated Rural Development Project (1979–1988) and Hill Agriculture Project (1985–1993) are counted.

Evolution of DOLIDAR’s Capacity

In advocating the separate TA, the RRP for the DRILP notes that DOLIDAR had implemented monitoring to only a limited extent, had difficulty meeting the differing needs of development partners and assuming full authority of investment programs, had made slow progress in formulating district transport master plans, and had achieved only limited adoption by local government authorities of road maintenance systems. The shortcomings are attributed to staff shortages, vagueness about functions,³ and the uncertainties engendered by incomplete decentralization. DOLIDAR’s problems are said to be compounded by the poor quality of local consulting firms services, the substandard outputs of many NGOs, and the private sector’s weak social mobilization skills in general.

Despite these assessments, ADB staff members consider that, overall, DOLIDAR has emerged as a significant success in CD terms. This is despite the low civil service salaries. Among the key factors involved has been the vision of its first director general; the career development opportunities for staff that opened up during the agency’s expansion⁴ under his leadership; and the substantial, coordinated support from donors. With the government pursuing decentralization and

³ For example, there is confusion over district development committee secretaries, who are local development officers but in practice frequently chair district development committees, about whether they or DOLIDAR’s District Technical Office have primary responsibility for technical matters.

⁴ DOLIDAR started with about 20 engineers; it now has around 200.

grassroots engagement as a key element of its development strategy, DOLIDAR staff recognized that this is where professional advancement lay. (DOLIDAR staff members say they have to change from being engineers to becoming “social engineers.”) However, this motivation is now being undermined to some extent by the difficulty of assessing the implications of decentralization for career prospects. It also seems that the present director general has not been able to sustain the same degree of commitment to and enthusiasm for DOLIDAR’s mission among his staff.

The DRILP RRP considers that the technical and project management skills of DOLIDAR have developed substantially since its formation (in 1997). However, despite its rapidly accumulated experience in managing externally funded projects, ADB assessed the agency’s HR base as still limited compared with the demands of a complex project such as DRILP. District institutional capacities are also limited.

National Water Supply and Drainage Board (NWSDB), Sri Lanka

CD-Related Assistance from ADB (1993 to the present)

The Second Water Supply and Sanitation Project (WSSP2, loan, approved in June 1993 [ADB 1993b]). The CD objectives included (1) helping the National Water Supply and Drainage Board (NWSDB) improve its operational efficiency and financial viability, (2) promoting sector reform to foster appropriate national water management, and (3) raising public awareness of key water issues throughout the country. Support was provided for consulting services, operations and maintenance (O&M), construction supervision, and training of NWSDB and local authority staff in technical and management matters as well as community participation and hygiene. The PCR concluded that the training substantially strengthened the O&M capacity of NWSDB staff but was not successful in strengthening that of the municipal authorities (ADB 2000a). The public awareness campaign was successful. NGO performance was less than

satisfactory, with some staff lacking financial and technical experience. The capacity of NGOs should have been more carefully examined during the selection process.

Responsibility for the O&M of water supply systems should have been transferred from NWSDB to local authorities on completion of each subproject but NWSDB failed to provide the necessary support in preparing for this.

A pilot project for community-based rural water supply showed that beneficiaries were highly motivated to improve their water and sanitation services and were willing to make substantial financial contributions. This led to several improvements for WSSP3.

The PCR rated WSSP2 as “generally successful,” but concluded that NWSDB needed to expand its capacity building support of local authorities and to encourage them to assume more responsibility. WSSP2 reinforced the financial viability of NWSDB and its operational efficiency, which improved project sustainability. The PCR recommended that NWSDB be made more autonomous in staffing, financial management, and O&M. As there was political influence on tariff decisions, the PCR also recommended the establishment of an independent regulatory body to approve all tariff revisions.

Management Strengthening of NWSDB (TA, approved in October 1993 [ADB 1993d]). The TA was rated “generally successful” in developing a computer-based integrated management information system, personnel management, and staff training, and assessing the potential for privatizing some services. The TA revealed a serious weakness in NWSDB’s internal audit function as well as deficiencies in its accounts.

The Third Water Supply and Sanitation Project (WSSP3, loan, approved in June 1997 [ADB 1997d]). Consulting services were provided to (1) strengthen and support project management and implementation capabilities; (2) support policy reforms (introducing a sewerage tariff, helping to establish a regulatory authority, and introducing private sector participation); and (3) prepare policies and operational procedures for water rights and groundwater use.

Accounting Review of NWSDB (TA, approved in 2000 [ADB 2000a]). The TA was provided to diagnose problems (revealed by the TA for WSSP2) and assess and advise on (1) the adequacy and competence of professional accounting staff, and (2) financial management and accounting procedures and practices. The Auditor General's Office was the EA.

Secondary Towns Water Supply and Sanitation Project (TA, approved in December 2000 [ADB 2000d]). Among their duties, the TA consultants were asked to (1) prepare an institutional development component, including the design of a training element (needs assessment for NWSDB and local authorities and preparation of a training program); and (2) assess the scope for improving information technology. The consultants were also asked to advise the government on the introduction of a regulatory body and "introduce some form of private sector management in the Greater Colombo Water Supply." The training needs assessment and program were to be largely participatory with the training specialist acting mainly as a facilitator.

Secondary Towns and Rural Community-Based Water Supply and Sanitation Project (loan, approved in December 2002 [ADB 2002b]). The loan again includes "institutional strengthening" to improve NWSDB's financial management and service delivery. The loan requires NWSDB to prepare a corporate strategy to (1) improve financial planning and resource allocation for the sector, (2) reduce tariff cross-subsidies, (3) introduce performance-based financial incentives to regional centers, and (4) institute appropriate management of existing assets. An action plan to improve operational performance was to be implemented by NWSDB. NWSDB was to identify small-scale water schemes for transfer to local government institutions, private sector, and/or community-based organizations (CBOs).

Training was to be provided for water supply system operators in NWSDB, village councils, and CBOs. A rural component was to provide training, which was to be provided by NGOs, contracted to village councils. The aim was "to strengthen CBOs' capacity to participate in community development." Management training was also to be provided, for NWSDB staff.

The project aimed to support decentralization of service provision to local governments, private providers, and civil society. The rural component was to be "demand-driven" and based on participatory approaches through NGOs (NGOs are recognized in the National Policy for Rural Water Supply and Sanitation Sector, 2001, as facilitators of water provision). Beneficiaries were to be organized in CBOs and to collectively take responsibility for subproject implementation. The project aimed to support NWSDB in adapting to its new role in the sector.

The project performance report includes a substantial list of lessons learned from ADB's impact evaluation study of WSSPs in selected developing member countries and a World Bank evaluation of rural water projects in general (Parker and Skytta 2000).

Relative Magnitude of ADB's Assistance (for all purposes)

During 1996–2001, approximately \$325 million of external funding was committed to the rural water supply and sanitation in Sri Lanka by nine agencies other than ADB (ADB 2000d). The loans and TA for the ADB-supported projects noted in this appendix above totaled \$240 million.

Evolution of NWSDB's Capacity

ADB staff members consider NWSDB to be one of the more developed public sector agencies in Sri Lanka in terms of overall capacity, and recent ADB project documents affirm its efficiency at implementing projects. Thus the TA report for WSSP3 noted that in "over 15 years of working as an executing agency for ADB projects, NWSDB had proved to be competent and reliable." The project performance report for WSSP3 also commended WSSP2's rate of implementation and the quality of processes employed. NWSDB considers itself to be among the top five EAs in Sri Lanka. It regards the recently prepared corporate plan as its own work and points to the fact that all project proposals now have to be approved by its Planning and Monitoring Division. As with many such agencies in the country, however, its more competent staff are concentrated in a relatively thin layer in the upper levels of the organization and

staffing lower down still requires strengthening. Financial management has been a persistent weakness.

While NWSDB's financial performance has improved as a result of increased customer numbers and improved technical performance, it continues to rely heavily on government and external development assistance for funding major capital works. The government has agreed to ensure that tariff levels at least meet O&M, depreciation, and rehabilitation costs. However, the establishment of an independent regulatory structure has taken a long time.

NWSDB's ability to build capacity at the local government level has not progressed as rapidly as ADB had intended. Local authorities still have little capacity to implement their recent mandate to provide water and sanitation.

NWSDB's public image has improved over time, as has its standing as a public sector employer in the professional labor market—job advertisements attract huge numbers of applicants who are aware of the relatively good salaries and fringe benefits now available. This stems partly from the strong donor support NWSDB enjoys and partly from its status as a semi-independent board, as opposed to being a government department.

Power Grid Corporation of Bangladesh (PGCB) and Dhaka Electricity Supply Company (DESCO), Bangladesh

CD-Related Assistance from ADB (1993 to the present)

Financial Management Upgrade, Bangladesh Power Development Board (BPDB) and Dhaka Electricity Supply Authority (DESA) (TA, approved in November 1993 [ADB 1993a]). The TA's objective was to enable BPDB and DESA to implement financial management and accounting systems appropriate to modern electric power utilities and to train staff accordingly.

The Rural Electrification Project (loan and TA, approved in April 1995 [ADB 1995]). The EA was the new Rural Power Company, which was mainly owned by the Rural Electrification Board (REB) and five rural electric cooperatives. The objectives were to (1) intensify rural electrification in seven rural electric cooperatives; (2) increase the availability of power to five rural electric cooperatives; and (3) introduce basic elements of corporatization, commercialization, and private sector participation in the power sector. An advisory TA was provided to prepare solicitation documents and assist in evaluating proposals for private sector implementation of the Meghnaghat Power Project. The Sector Assistance Program Evaluation report rated the Rural Electrification Project as "highly successful" (ADB 2003h). This report also praised the advisory TA as an example of how TAs could be used to introduce new concepts and approaches to Bangladesh, for example, through competitive bidding to solicit independent power producers with power purchasing agreements. This resulted in the Meghnaghat plant selling power successfully to BPDB at an internationally competitive price. Partly due to this TA, the Rural Power Company and the Westmont Project had the capacity to solicit private generation projects without further TA.

The Ninth Power Project (loan and TA, approved in November 1996 [ADB 1996b]). This project consisted of power infrastructure development and the provision of engineering services. Crucially, it also involved (1) the creation of the two new EAs, PGCB and DESCO, in November 1996; (2) the unbundling of BPDB, which was the start of corporatization of BPDB and DESA; and (3) the rationalization of DESA's distribution boundaries. A few months previously, the government had agreed to increase retail power tariffs and to introduce a formula for semiautomatic tariff adjustments in response to fuel cost and exchange rate movements. Covenants relating to financial ratios to be maintained during the first 10 years of PGCB's and DESCO's operations were proposed. The construction components were to be implemented by PGCB, DESA, and DESCO and the engineering component by BPDB. The TA was for valuation of the assets to be transferred from DESA to DESCO.

The Dhaka Power System Upgrade Project (loans, approved in November 1999 [ADB 1999c]). The project invested in power infrastructure development for PGCB, DESCO, REB, and DESA and in preparatory work for a training and management development institute for REB.

The West Zone Power System Development Project (loans and TA, approved in November 2001 [ADB 2001b]). The loans invested in power infrastructure development, with PGCB, BPDB, REB, and a new company (to be established to serve the west zone) as the EAs. Consulting services included designing a new training curriculum based on a needs survey, organizing training for staff, and helping to computerize management systems. The TA was for corporatizing BPDB's distribution operations in the west zone.

Corporatization of the Dhaka Electricity Supply Authority (TA, approved in November 2002 [ADB 2002g]). Consulting services were provided to assist the government and DESA to devise appropriate strategies for (1) valuing assets, (2) establishing a viable financing plan, (3) formulating personnel policies, (4) organizing the transfer of staff and assets to the new company, (5) organizing voluntary separation schemes for eligible DESA staff, (6) examining and organizing the sale of DESA's shareholding in DESCO, and (7) implementing financial and management information systems.

The Power Sector Development Program (loans, approved in November 2003 [ADB 2003g]). The program's objectives are to achieve financial stability in PGCB and DESCO and, partially, in BPDB and DESA. The objectives were to be achieved by settling outstanding dues of the government and its semiautonomous and autonomous bodies to DESCO, DESA, BPDB, and the rural electric cooperatives. Although PGCB and DESCO have improved their operations and have broken even, their past liabilities prevent their transformation into profitable companies. The project loan finances power infrastructure development projects, executed by BPDB, PGCB, and the new North West Zone Power Distribution Company.

Relative Magnitude of ADB's Assistance (for all purposes)

During 1973–2002, a total of \$4.1 billion of external assistance was committed to the Bangladesh power sector in loans and grants. Of this ADB had contributed a little under \$1.1 billion (about 26%) and was by far the largest single financier.

Evolution of Power Sector Capacity

General. The RRP for the Power Sector Development Program recorded the following major achievements of the government under the power sector reform program since 1994: (1) creation of a competitive diverse market of independent public and private generation companies, (2) sector restructuring by transferring all transmission business to PGCB, (3) creation of a manageable and competitive environment through benchmarking through corporatization of DESCO and West Zone Power Distribution and restructuring of public sector operated distribution, and (4) passage of the new Energy Act 2003 as a basis for establishing an Energy Regulatory Commission. This report also attributed the dramatic improvements during fiscal year (FY) 2001 in collection performance of BPDB and DESA to the Financial Management Upgrade TA, even though this was completed in 1995.

However, while in 1996 the technical assistance completion report (TCR) had rated the TA "generally successful," in 2003 the Sector Assistance Program Evaluation report offered a different perspective (ADB 1997a and 2003h). The evaluation report noted that although large areas of billing at BPDB and DESA were now computerized, overall the agencies had "fallen progressively further behind good commercial practice in accounting and billing in the last 10 years." This contrasted with experience at the corporatized DESCO, which was also able to produce full monthly management accounts. The RRP also noted that the performance of the seven rural electric cooperatives supported by ADB in the Rural Electrification Project was very good.

In 1999, the RRP for the Dhaka Power System Upgrade Project said that DESA's system losses were well above, and its collection ratios well

below, those of an efficient distribution company (ADB 1999c). In 2002, the TA report for the corporatization of DESA (ADB 2002g) noted that it had made little improvement during the last decade, as its governance structures and rules of business were basically the same as those of BPDB, from which DESA had been split off in 1991 to handle BPDB's Dhaka operations. DESA needed to be incorporated if it was to compete with DESCO (northern Dhaka) in servicing southern Dhaka.

DESCO. Until now, this has had a fully independent board of directors. Its independence was upheld by a court ruling that the board was acting within its powers when it terminated the appointment of DESCO's initial senior management team for poor performance. However, recently the government seems determined to take control of the board by appointing the power secretary as chairman and bringing in another government director, even though DESCO's articles of incorporation ("MemArts") require that half of the board should come from outside government. These proposed moves are causing DESCO senior management considerable concern.

DESCO has introduced a commercial business culture, based on new service rules and remuneration structures. These were written by DESCO, based on REB, BPDB, and DESA policies. All positions in the new company were advertised, but as no government staff applied, all appointees came from elsewhere, including the successful REB. All DESCO employees are on 2-, 3-, or 5-year contracts.

The company broke even in FY2003, and made a substantial profit in FY2003/2004. Its market share has increased to about 10%. Its performance in terms of revenue collection and system losses has been significantly better than DESA's. The big challenge was to improve the delivery of power to consumers, something that had hitherto been neglected.

With hindsight, DESCO would have (1) wanted greater emphasis placed on securing the appointment of its chairman by competitive selection instead of by rotation of government officials; (2) sought greater clarity at the outset

concerning the new company's objectives, functions, and mandate; and (3) identified its staffing requirements earlier.

DESCO considers it wastes much time and staff resources in meeting government reporting requirements for unnecessary detail that DESCO doubts is used.

PGCB. After its establishment, PGCB initially recruited people from outside BPDB because many of its employees were reluctant to forgo past service benefits, especially in the face of uncertainty about the new terms of service with PGCB. In due course, however, the government approved a compensation package and amended BPDB's service and pension rules to facilitate payment. PGCB took the initiative in securing pension benefits for employees with less than 25 years service (BPDB's eligibility threshold). ADB provided funds for this from surplus loan proceeds.

Everyone, from the chief executive officer down, was required to participate in orientation training that included the new corporate objectives, targets, policies, procedures, and levels of financial authority. The new terms of service include maximum 5-year contracts for all staff. Average salaries are 1.5 to 2 times those of BPDB. However, because of a bizarre inconsistency between the Companies Act and the act regulating the Comptroller General's Office, PGCB's expenditure is audited by the government. As a consequence, the company's remuneration structures are challenged as not complying with civil service rules.

The government tried to interfere in PGCB's governance structure by insisting on there being nine government directors and only three nongovernment directors, as opposed to the existing composition of three government, four nongovernment (Consumer Association, Chamber of Commerce, Institute of Engineers, and Institute of Chartered Accountants) and three executive directors. PGCB was successfully able to resist this pressure by pointing to the requirement in the articles of incorporation ("MemArts") that ADB's approval would be needed for such a change.

Civil Service. Reform is long overdue. The service still suffers from excessive bureaucracy

and an appointments system that puts people into posts for which they are not trained or for which they have little relevant experience. Pay is low, strong leadership is lacking, and there is corruption. The result is poor performance despite the employment of highly capable individuals and some excellent training institutes. Many public sector organizations are under threat from the disruptive activities of powerful unions.

Nepal Electricity Authority (NEA)

CD-Related Assistance from ADB (1990 to the present)

Institutional Support for Distribution Planning and Commercial Operations of NEA (TA, approved in 1989 [ADB 1989]). The TA was attached to the Seventh Power Project. It provided the services of a distribution consultant and a commercial consultant for 1 year. The distribution consultant set up all the necessary in-house facilities to plan and operate distribution systems and run a related training course. The commercial consultant overhauled NEA's consumer accounting and billing systems. The evaluation report assessed the TA as only "partly successful" because NEA failed to provide sufficient counterpart funds and lacked commitment to immediate implementation of the TA recommendations (ADB 2004b).

Institutional Strengthening of NEA's Environment Division and Power System Master Plan (TAs, approved in 1996 [ADB 1996c]). The two TAs were attached to the Kali Gandaki A Hydropower Project. The first included assistance to enable NEA to identify and participate in in-country and external training programs. The consultants' terms of reference also noted that they "will co-ordinate closely with the [environment management unit] to maximize training and experience-building opportunities." The second TA was also intended to provide on-the-job training to NEA staff.

Management Reforms and Efficiency Improvements for the NEA (TA, approved in December 2000 [ADB 2000e]). The TA was intended to address several aspects of NEA's

unsatisfactory performance by (1) reviewing NEA's organization structure, management, and relations with government with a view to making NEA more autonomous and efficient; (2) evaluating different models for restructuring NEA's distribution system; (3) analyzing NEA's power supply costs to provide critical information for investment analysis and tariff setting; and (4) studying demand-side management with the ultimate aim of improving consumption efficiency. The terms of reference for the management reforms directed the consultants to be very proactive in considering performance incentives, procedures for merit-based promotion, replacement of weak managers, raising of salaries to private sector levels, etc. A fundamental overhaul of NEA's management was envisaged. However, this part of the TA was never carried through because it was found to duplicate initiatives supported by the World Bank. The terms of reference for the ADB TA were therefore revised and it became a TA for power sector reforms instead.

Restructuring the Nepal Electricity Authority (TA, approved in January 2005 [ADB 2004f]). The TA was intended to help the government establish a transmission company, provisionally called the Nepal Power Grid Corporation (NEPGRID), as the first step toward unbundling NEA into four separate government-owned companies handling generation, transmission, distribution, and engineering. (The previous TA had originally seen the restructuring of NEA's distribution operations as the first priority, but the potential viability of multiple distributors in Nepal's small electricity market has since been questioned). The consultant team is to work jointly with a government-appointed task force on every aspect of the work.

Relative Magnitude of ADB's CD Assistance

The NEA has received investment and/or technical support from many donors, including the Danish International Development Agency (Danida), German Agency for Technical Cooperation (GTZ), Norwegian Agency for International Development (NORAD), United Nations Development Programme (UNDP), United States Agency for International Development (USAID), and World Bank. In 1996, the RRP for Kali Gandaki

Hydropower noted that NEA had by then received 5 years of World-Bank-funded TA. ADB had provided 11 advisory TAs by then as well as several project preparation TAs. USAID (1) is providing TA to set up the Nepal Electricity Regulatory Commission, an essential step on the road to divestiture and corporatization to which ADB's restructuring TA is contributing; and (2) will continue to assist NEA with training and tariff setting. While ADB is an important reforming stakeholder in Nepal's power sector, other funders are influential too.

Evolution of NEA's Capacity

Present Capacity. The TA report for the restructuring TA observes that NEA's operational performance is substandard, with high system losses, poor quality power supply, and a deteriorating financial situation (ADB 2004f). This is despite all the external support over the years to correct technical deficiencies and pressure on government to increase tariffs. Government domination of NEA's board of directors is seen as preventing NEA from having the autonomy, authority, and responsibility it needs to manage its affairs efficiently. However, the government has now given an unambiguous commitment to unbundle NEA and (to start with) create an independent regulator and an autonomous operator of the transmission and dispatch system.

Resident mission staff members score NEA's present capacity at only 59%, based on eight criteria. Management's focus on the end-users, customers, and beneficiaries of NEA's services and its commitment to good governance is rated as below average (<2.5 in the range 1 [very poor] to 5 [very good]).

Change Over Time. Resident mission staff members consider that NEA's overall capacity has deteriorated slightly during the last 10 years or so. ADB's descriptions of NEA in documents written a decade ago suggest that not much has fundamentally changed. However, NEA has attempted some "internal unbundling" (as described by NEA) in the face of the government's slow acceptance of the principles of sector restructuring and policy reform. NEA has disaggregated its operations into four business

groups (generation, transmission and system operation, distribution and customer services, and engineering services), each of which has to operate as a cost or profit center. Managers of the first three groups are on performance contracts and managers of the 19 "distribution centers" (branch offices within the distribution and customer services group) are also given incentives to achieve targets.

Ceylon Electricity Board (CEB), Sri Lanka

CD-Related Assistance from ADB (1998 to the present)

Power Sector Restructuring Project (TA, approved in December 1998 [ADB 1998b]). The EA was the Ministry of Irrigation and Power. This TA aimed to prepare detailed plans for power sector restructuring and a loan to finance it, following the government's acceptance in principle of the ADB-financed energy sector strategy study that had just been completed. The central message was that future power system development would have to rely less on concessionary aid financing and more on commercial borrowing and private investment (a previous World Bank TA had examined the legal and regulatory framework and policy incentives to promote private sector participation). Required operating efficiency improvements would best be achieved by giving CEB more autonomy and a more commercial orientation and by decentralizing operations. CEB and Lanka Electricity Company (LECO) were to be unbundled into two generation companies, a transmission company, and several distribution companies, with eventual privatization in view. An independent regulatory agency was to be established. The TA, which provided consultants and training, also aimed to help the successor companies develop modern utility management systems and resolve HR issues. A concurrent World Bank TA was to provide legal consultants.

Restructuring the Power Sector, Phase II (TA, approved in April 2002 [ADB 2002f]). Following the government's approval of the new power structure in April 2001, this TA was (1) to assist the unbundling of CEB and LECO into three generation

companies (two hydropower and one thermal), a transmission company with two subsidiaries (bulk-power purchase and sales and transmission), and four distribution companies; and (2) to establish the independent regulatory commission. In the design stage of the TA, the commissioners were to be appointed, following enactment of the new legislation. In the implementation phase, consultants were to assist the government with seven tasks: (1) advisory, project planning, and management support for the steering committee; (2) corporate establishment; (3) customer and financial management systems; (4) governance procedures for directors, managers, and civil servants; (5) private sector style organization, recruitment, and remuneration; (6) asset/liability allocation and capital structuring; and (7) technical operating parameters and procurement procedures.

Power Sector Development Program (loans, approved in October 2002 [ADB 2002c]). A program loan (the EA is the Ministry of Finance) was to be disbursed in two equal tranches:

- the first tranche on the condition that necessary legislation is enacted, money owed to CEB is paid, CEB reduces its levels of net receivables, and the government guarantees the financing of CEB's cash shortfall; and
- the second tranche on the conditions that (1) the Public Utilities Commission is established and issues rules for tariff setting, licensing of companies, and the purchase and sale of power; (2) the new companies are licensed and start operations; (3) CEB is unbundled in accordance with the plan; and (4) the major lenders to the sector to the detailed restructuring proposals have no objections.

A sector loan (the EA is the Ministry for Power and Energy) was to finance expansion, modernization, and rehabilitation of the transmission and distribution systems and expand the rural network. One TA was to provide consulting services for unbundling CEB. A separate TA pilot program was to finance connection costs for poorer households under the administration of microfinance institutions, with an NGO undertaking initial poverty assessment, progress monitoring, and impact evaluation.

Energy Sector Master Plan (TA, approved in May 2003 [ADB 2003j]). The TA was to help the government formulate a strategy to develop a sustainable energy sector over a 20-year period from 2004, with particular emphasis on the 3–5 year and 5–10 year horizons. The main outputs were to be (1) policy guidelines and institutional measures to guide market-oriented sector development, including rehabilitation and restructuring; (2) an institutional framework for assessing energy potential and supporting increased investments; (3) a diagnosis of sector agencies (including recommendations for capacity building); and (4) strategies and programs for sustainable financing of selected projects.

Rural Electrification and Network Expansion Project (TA, approved in December 2003 [ADB 2003k]). The TA aimed to establish the technical, economic, and social feasibility of the project “and provide the new distribution companies with capacity for preparing similar projects for external financing.”

Relative Magnitude of ADB's Assistance (for all purposes)

During 1987–2002, ADB accounted for just under 12% (\$215 million) of total external funding committed to the power sector and was the third largest individual donor. Japan was by far the largest.

Evolution of CEB's Capacity

In 2002, ADB criticized CEB for (1) being “run more like a government department than an autonomous corporation”; (2) lacking clear financial and operational objectives; (3) not having board directors who were sufficiently independent or effective; (4) having spending authority levels that were set too low; (5) suffering from procurement and HR problems that stemmed from public service regulations and provisions in the Finance Act; (6) lacking management accountability for results; and (7) having a poor focus on customer services, which manifested itself in poor quality supplies, inconvenient billing processes, and slow response to inquiries, fault notices, and applications for new connections. CEB operations were guided by

politically motivated directions from the ministry rather than by CEB's own financial and operational needs.

Although the power projects financed by ADB and others in Sri Lanka have generally been successful in technical terms, CEB has not been able to meet some of the financial covenants in ADB loans agreements, especially concerning rates of return. Due to lack of self-financing, CEB cannot undertake its own investment program. In 2002, ADB described CEB's financial position as "cause for alarm" and representing "financial hemorrhaging." While system losses have been an important factor, low tariffs have been the major one, with poor revenue collection due to inadequate accounting systems also important.

CEB blames government policy for many of its problems. However, CEB also has weaknesses, such as poor planning and project formulation capabilities and unsatisfactory technical operating efficiencies (system losses are over 18%, when they should be no more than about 12%), which have internal rather than external causes. The most serious "internal" weakness is accounting and financial management, extending even as far as an inability to operate, let alone construct, a spreadsheet model of CEB's financial operations. CEB staff members are still somewhat reluctant to accept that power supply is not just about engineering. Not one social scientist is employed by CEB and it lacks expertise in environmental analysis and management and public relations.

Progress in introducing performance-based remuneration and promotion principles into HR policies is slow. The restructuring proposals mean that all previous employees will be transferred into the new entities, with continuing open-ended employment contracts.

CEB does not always make the best use of consultants. Staff members assigned to work alongside consultants as counterparts are often not strong enough to engage with the consultants in a constructively challenging way. Senior staff members do not allocate enough of their own time to this. This partly reflects the fact that in several areas, CEB staff members have the necessary competencies themselves. An example is the power generation master plan. The Planning

Division is probably capable of doing this work largely with its own resources, with consultants required only to assist in some highly technical areas. The assignment of large numbers of consultants to this planning task demoralizes CEB staff. Whether CEB staff members are acquiring much in the way of new knowledge or skills as a result is questionable. A similar experience occurred with the Energy Sector Master Plan, which CEB staff members did not feel was "theirs" and, consequently, were not very interested in it. CEB did not ask for consultants to work on the Rural Electrification and Network Expansion Project, which CEB did not want as it saw the project as uneconomic and requiring subsidizing. The deployment of consultants for this purpose represents capacity substitution.

USAID is currently implementing a CD project with CEB that uses a South Asian regional approach to institutional and policy reform. It involves training courses, workshops, and exchange visits with particular reference to other regional experience.

CEB considers itself successful at implementing projects (ADB does not insist on using consultants for implementation). CEB's main problem in this respect is the procurement system it is obliged to use. The government tender board procedures can often delay projects. CEB is feeling the negative effects of the present uncertainty over restructuring. A basic mistake was to have overlooked the need for a dialogue with employees and the unions on this matter. Progress with efficiency improvements is hampered by political interference in the hiring, firing, transfer, disciplining, and rewarding of personnel. CEB's staff age profile, which peaks at 45–54 years, is a problem. Despite considerable outsourcing, CEB considers it still has problems maintaining an adequate number of trained, technical people in its core staff.

CEB does see a need for consultant inputs in system maintenance and protection.

CEB considers its internal training arrangements to be inadequate. It needs a proper training unit and additional training resources to support the decentralization drive and provide refresher training courses throughout people's careers with CEB.

CEB considers its relationship with ADB to be good—"ADB trusts us." CEB finds ADB relatively easy to work with, compared with some other donors. ADB is prepared to allow a change of scope in a project if CEB can make a good case for it. Despite the issue of consultant use (just noted), CEB does not see project ownership as a problem.

Securities and Exchange Commission (SEC), Bangladesh

CD-Related Assistance from ADB (1993 to the present)

Institutional Strengthening and Development of SEC (TA, approved in August 1993 [ADB 1993c]). SEC was set up in June 1993 and the TA was intended to build the regulatory and enforcement foundations of this key capital markets agency. The TA covered (1) drafting regulations; (2) reviewing and, if required, adjusting, SEC's mandate and authority in the context of the SEC Act; (3) establishing appropriate organization, systems, and procedures; (4) preparing a development action plan; (5) assisting with staff recruitment and HR management development; and (6) helping to implement the proposals. SEC and the Dhaka and Chittagong stock exchanges subsequently adopted the consultants' recommendations. Training/study tours were organized for SEC officials to countries with more advanced capital markets, such as the Republic of Korea, Malaysia, Thailand, and the United States. In 1996 the TCR rated the TA as generally successful (ADB 1996f).

The Capital Market Development Program (loan and TAs, approved in November 1997 [ADB 1997b]). The EA was the Ministry of Finance. The loan component was a policy reform program to create an environment conducive to attracting more investment capital to augment bank lending. The loan would finance accumulated shortfalls of the Investment Corporation of Bangladesh, rationalization of tax structures between listed companies, removal of preferential pricing on government borrowings, organizational strengthening, and other fiscal costs. A specific objective was to make SEC an autonomous

government agency to insulate it from outside interference and to centralize powers over the capital market on it. The SEC board was to be strengthened with members from the private sector, and the SEC was to be granted authority to make rules and regulations without prior approval of the Ministry of Finance. SEC was to be given direct, specific authority over clearing, settlement, and depository functions and broader powers to impose fines and other sanctions. Policy actions required for the release of the second tranche concerned developing capital market infrastructure, modernizing support facilities, increasing the limited supply of securities in the market, and improving the demand for securities from institutional sources of capital. The conditions also required the government to make SEC an autonomous agency and grant it the powers and responsibilities outlined above.

The PCR considered that ADB's tranche conditions had ambiguities (ADB 2003d). Future programs should be designed to be more specific and concrete, with clear distinction between which actions or steps were tranche conditions and which were not in order to avoid arguments over compliance. This had implications for the design of monitoring systems. ADB was too lenient in its judgments on compliance status, and failed to follow up with specific measures to ensure full compliance. After the second tranche release, there should have been more regular dialogue on key outstanding issues, including privatizing the state-owned enterprises and restructuring the Investment Corporation of Bangladesh. The PCR rated the program "partly successful." Governance in the capital markets remained weak.

The three TA projects aimed at improved governance and capacity building in key capital markets organizations, including SEC. In view of the weak oversight and enforcement ability of SEC and the stock exchanges that had been exposed by the stock market crash of 1996, the focus of the TA for capacity building of SEC and the stock exchanges included (1) market monitoring and surveillance; (2) automated management information; (3) improved data collection, reporting, and evaluation; (4) staff training for increased inspections; (5) preparations for investigations and prosecutions; (6) development of an HR program; and (7) increased research capability (ADB 1997b).

ADB described the TA assistance as being “medium term” and “hands-on.” The TCR (1997) rated the TA “partly successful” (ADB 1997e). A major problem was that the automated system installed at SEC was not user-friendly and produced inaccurate reports. This required rectification in a follow-up TA. SEC is reported as having considered the TA as very useful in developing its capabilities as a regulator.

Capacity Building of SEC and Selected Capital Market Institutions (TA, approved in November 2000 [ADB 2000c]). SEC was the EA. The TA’s objective was to build SEC’s capacity to perform as a market regulator and audit the corporate governance of listed companies and securities issuers. It would also help the stock exchanges and Central Depository Bangladesh Limited become more effective and efficient. The main activities concerned (1) corporate governance of capital market organizations; (2) financial reporting and disclosure; (3) compliance with international accounting standards; (4) an automated central depository system; and (5) market regulation, surveillance, and monitoring. A substantial amount of training of SEC staff by the TA consultants as well as external training was envisaged.

Financial Markets Governance Program (TA, approved in December 2003 [ADB 2003k]). The EA was the Finance Division of the Ministry of Finance. With regard to SEC, the TA was to strengthen its enforcement capability and review its rule-making process to ensure appropriate stakeholder consultation when legislative changes are being considered. Ways of achieving greater autonomy of SEC’s decision-making process were to be identified. Regional models that could help SEC improve its funding, income, and staff compensation situation were to be reviewed.

Relative Magnitude of ADB’s Assistance (for all purposes)

Other donors also provided CD support for capital markets development in Bangladesh, particularly USAID and the World Bank. ADB’s CD interventions with SEC were fundamental components of the overall process.

Evolution of SEC’s Capacity

On completion of ADB’s initial institutional strengthening intervention (ADB 1993c), the TCR (ADB 1996f) concluded that Bangladesh had “the basic structure of a regulatory and enforcement authority for capital markets and has begun to regulate an active stock market.” However, it recommended further TA to strengthen SEC’s regulatory strategy and research and surveillance capabilities, the self-regulatory role of the stock exchanges, and the technical expertise of SEC and stock exchange officials. In fact, the Bangladesh capital market crashed in 1996 due to corrupt practices, partly due to the “weak capacity of SEC and stock exchanges to oversee and enforce regulations” (ADB 1997b).

The PCR for the Capital Markets Development Program reported that SEC had been made into an independent agency and was empowered to issue regulations without government approval (ADB 2003d). The regulatory framework for disclosure, listing rules, inspections, sanctioning, and broker conduct had been strengthened, and SEC had specific and direct authority over clearing, settlement, and depository functions. Training courses, including on-the-job with real cases, had enhanced the knowledge and skills of SEC staff and enabled SEC to be a more effective supervisor with likely sustainable benefits for the capital market. However, SEC’s consultation with capital market participants needed improvement, and market participants perceived that SEC had not adequately disclosed its policy for exercising its powers and discharging its functions. Importantly, SEC still lacked the capacity to inspect, investigate, maintain surveillance, and enforce, mainly due to a severe shortage of qualified staff. Although SEC was operationally autonomous, the government still determines the appointment conditions of board members and staff and exercises authority over SEC. This would not change until SEC became self-financing, but the small size of the market made such self-financing unlikely in the near future.

SEC’s own view of ADB’s assistance is that its TAs contributed to CD in two main ways:

- (1) Setting up a good regulatory framework—while the framework is not perfect, it at least approximates to the standards of similar

frameworks in neighboring countries. SEC is now in a better position to identify violations, which means another 1996-type stock market crash should be avoidable.

- (2) Training SEC staff—most staff members have now received training abroad, which has particularly strengthened SEC's monitoring and surveillance capabilities, although it is still being conducted on an essentially ad hoc basis at present due to the lack of an information technology (IT) system. (This deficiency is being addressed in a new ADB-supported program.)

Department of Livestock Services (DLS), Nepal

CD-Related Assistance from ADB (1978 to the present)

The Livestock Development Project (LDP, approved in 1979). The LDP investment followed a project preparation TA in 1978. The LDP provided TA (for consultants and training) in technical areas. The evaluation report concluded that project had been overly ambitious and had strained the capacity of the EAs, which included the Dairy Development Corporation (DDC) and Agricultural Development Bank of Nepal (ADBN) as well as DLS (ADB 1990). The report rated the project "unsuccessful," while noting that DLS's performance had been "generally satisfactory." The evaluation report verdict on the whole project was challenged by the director general of DLS. In fact, both the evaluation report and the director general agreed that the project had been pioneering ("revolutionary" in the director general's words) and had laid the foundations for the institutional development of the livestock subsector.

The Second Livestock Development Project (LDP2, approved in 1985 [ADB 1985]). LDP2 was approved 1 year after a project preparation TA. LDP2 provided for TA (consultants and training) for "institution building" in both managerial and technical respects. The evaluation report concluded that although the project had been well designed its performance had been only "partly successful" due to a low economic internal rate of return and fewer beneficiaries than planned

(ADB 1998a). However, the report noted that the LDP2 "had more success in institutional development," with the emergence of farmer groups through which extension services were effectively channeled and village animal health workers supplementing the role of government extension staff. This was despite the disruption caused by a merging of DLS and the Department of Agricultural Development in 1992 and separation again in 1994. The farmer group approach was adopted in LDP3 and has also been taken up by extension services generally throughout Nepal. The evaluation report recommended greater emphasis in future projects on such "software" components, with training for farmers and private entrepreneurs as well as government staff.

The Livestock Sector Master Plan. ADB supported the preparation of the Livestock Master Plan, which was completed in 1993. The plan proposed more effective capacity building for public and private livestock sectors and advocated a people-centered participatory integrated systems approach to livestock development. This resonated with the government's emerging understanding of what a poverty reduction focus in development strategy would mean for the roles required of its various agencies.

The Third Livestock Development Project (LDP3, TA, approved in 1994 [ADB 1994]; loan, approved in 1996 [ADB 1996e]). The feasibility study for the LDP3 was completed in 1996. The CD component aimed at reorienting DLS toward taking a more process-based and stakeholder participatory approach to service provision. The primary objective in this was to develop the capability of rural communities to plan and manage livestock development activities themselves, supported by better access to (mostly privately provided inputs), markets, and services. NGOs were to be involved and a special effort was to be made to involve women. Training was considered to be a major factor in unlocking rural productivity, with collaborative learning based on "livestock action teams" operating in villages. A postgraduate program on facilitating participatory processes was to be established in a national institution. TA (for consultants and training) was to guide process-related activities, provide technical support, and address privatization issues concerning farmers'

services, inputs, marketing, and agro-processing. The RRP envisaged a major shift in approach compared with the two previous projects and stated that “all stakeholders in the livestock sector are expected to cope with the change from the previous command or paternalistic support of the public sector to a more independent, private sector, farmer group, market-oriented industry.”

The Community Livestock Development Project (LDP4, loan, approved in 2003 [ADB 2003f]). In a departure from previous practice, DLS prepared its own feasibility study for a fourth investment project. Using its own resources, DLS engaged one of the international consultants who had been working on LDP3 to assist with the feasibility study for LDP4. This cut the cost of the project preparation TA in half. In 2002 ADB provided TA “to update Government’s feasibility study and design an investment project suitable for external financing.” LDP4 was approved in 2003. It was to cover 28 districts already under LDP3 and 30 new ones. The LDP3’s “pocket package” (concentration of project delivery into mini-projects in selected localities) and group approach was to be modified. Experience showed that there needed to be more emphasis on preparing communities in advance for livestock development interventions, and pilot tests would be conducted in 4 districts. Concerning the capacity building initiatives of LDP3, the RRP for LDP4 noted that “all stakeholders highly appreciate the livestock action teams . . . for the latter’s usefulness in project planning, but the teams’ role in supporting **implementation and monitoring** needs to be strengthened” [emphasis added]. A major training component was included to give guidance in process-related activities, technical support, and privatization issues (i.e., similar to the objectives in LDP3).

Relative Magnitude of ADB’s Assistance (for all purposes)

Between 1980 and 2003, external donors disbursed approximately \$65 million for the livestock components of projects, of which ADB provided approximately \$39 million. This excludes a large Danida-supported dairy development project (19912000) with total project costs estimated at \$63 million.

Evolution of DLS Capacity

Present capacity. It is useful to begin by assessing where DLS is now considered to be in capacity terms.

- **For strengths**, the RRP for LDP4 notes “DLS has shown that it has the necessary organization structure and staff skills to manage successfully a large and diverse project.” “DLS is considered one of the more innovative government departments in Nepal and is more attuned to development priorities. It has pioneered several innovations such as public-private partnerships, cross-sector cooperation, and small-scale entrepreneur development. DLS has the technical competence to implement another project, but” (ADB 2003f).
- **For weaknesses**, “the changes in [DLS’s] managerial ability, role orientation, cross-sectional linkages, extension capability, and competence started under [LDP3] need to be continued and reinforced.” The RRP also identified the following constraints on DLS capacity: a staff/farm household ratio of 1:2,000, insufficient training for technical staff, lack of specialization, mobility, weak monitoring and evaluation capacity, and an input-driven orientation as opposed to the demand- and output-driven outlook that public-private partnerships can address.

Change over time. DLS admits that 25 years ago it had very little capacity and acknowledges the huge help provided by the first two LDPs in building livestock infrastructure. DLS is proud of its pioneering of the farmer group approach and the fact that it quickly spilled into nonproject districts and of the lead DLS took with regard to female participation. However, DLS considered the project management structure to have been too top-heavy; but this was rectified with LDP3’s narrower focus, which has worked. Among the lessons that DLS has learned about training in rural communities is the need to build on the skills people already have, albeit in “low technology” activities. Support for farmers has to focus not only on production but also on quality and cost, for example, in upgrading meat hygiene standards. DLS considers it still needs to improve its ability to reach and train farmers and

other rural business people. This means technically oriented DLS staff have to acquire skills in communication, group dynamics, leadership, and the like.

A review of the ADB–EA relationship over such a long time span shows how substantially ADB's concept of what constitutes effective development assistance in general has changed. The first two LDPs were production-focused, and sought to create infrastructure and transfer technology and to assist DLS to implement the project as designed. Shortcomings in service delivery to farmers led to exploration in LDP2 into the use of farmer groups, an approach endorsed by the Livestock Master Plan. The principle was elaborated in LDP3, which was also concerned with marketing and value-adding activities, with the formation of livestock action teams and the involvement of NGOs and other CBOs. This approach was extended in LDP4, building on the lessons of LDP3. Thus DLS has had to change from being the primary service provider to becoming a facilitator of service provision including privately provided services. It has had to

greatly increase its physical presence at the local level in order to act effectively as the integrator of rural development components. This may soon be institutionalized under the government's formal decentralization policy.

Not only did DLS have to increase its capacity to deliver services in the "traditional" manner but it later had to learn how to deliver these in a radically different way and adapt to an altogether new role. Such a transformation of a public sector agency requires fundamental changes in the understanding staff have of their jobs, by what criteria their performance in them will be judged, and of the ultimate purpose of DLS and the justification for its existence. By any measure, such a task will require a lot of training and close support. This has indeed been provided and helps to explain why the amount of TA supported remains relatively large, despite successive interventions over a very long period. It also explains why DLS itself considers it still needs more training to help it complete the transformation.

Appendix 4: Consulting Services for Selected Projects

Sector	Country	Executing Agencies	Project	Date	Consultants (person-months)			Notes
					Int'l	Domestic	Total	
Infrastructure	Bangladesh	LGED	TA 1043-BAN	Oct-88	58	219	277 actual	feeder road technical for local contractors and LGED
			RIDP	Oct-88	132	696	828 planned	
					209	810	1019 actual	extension for flood rehab supervision
			TA 1809-BAN	Dec-92	24	36	60 actual	
			RIDP-2	Dec-92			1218 actual	extension for flood rehab supervision
			TAR BAN 28023	Mar-96	8	36	44 planned	preparation
			RIDP-3	Oct-97	201	882	1218 planned	project implementation and management support
			TAR BAN 31304	Sep-01	9	30	39 planned	preparation
			RIIP	Nov-02	134	1238	1372 planned	works implementation
					48	606	654 planned	community-based and local governance support
	Nepal	MLD	TA IS for RID	Apr-96	11	24	35 planned	
			RIDP	May-96	10	279	289 planned	
			DRILP loan	Sep-04	90	425	515 planned	
			DRILP TA	Sep-04	10	28	38 planned	
	Sri Lanka	NWSDB	TA1900 SRI (for WSSP-2)	Jun-93	63	87	150 planned	
			TA SRI 28153	Jul-96	59	172	231 actual	
			TWSSP	Oct-97	15	25	40 planned	sector project preparation
					76	445	536 planned	project management & implementation (package A): 423
								policy reform (package B): 57
								water rights and groundwater use (package C): 41
Power	Bangladesh		TA SRI 31501	Dec-00	24	60	84 planned	STWSSP preparation
			STRCBWSSP	Dec-02	120	1020	1140 planned	mostly project management (711)
							536 planned	engineering
			TA 2004-BAN	Nov-93	30	50	80 actual	financial management upgrade, BPDB and DESA
			TA	Nov-96	3	10	13 planned	asset valuation for DESCO
			TA (RRP 31296)	Nov-01	22	20	42 planned	corporatizing BPDB's west zone distribution
			TAR 34039	Nov-02	22	30	52 planned	corporatizing DESA
	Nepal	NEA	TA 1267	Jan-90			24 actual	inst. support for distribution planning and commercial operations
			KG loan	Jun-96	30	11	41 planned	strengthening NEA's environ div+prep power system master plan
			TA 32241	Dec-00	18	15	33 planned	mgt reforms and efficiency improvements
			TA 37196	Dec-04	8	22	30 planned	restructuring NEA

Sector	Country	Executing Agencies	Project	Date	Consultants (person-months)			Notes
					Int'l	Domestic	Total	
	Sri Lanka		TAR SRI 30207	Dec-98	20	25	45 planned	management and engineering studies
					?12		planned	power sector reform adviser
			TAR SRI 35006	Apr-02	24	25	49 planned	CEB unbundling and regulatory commission
			TAR SRI 36177	May-03	10	16	26 planned	energy sector master plan preparation
			TAR SRI 34323	Dec-03	14	26	41 planned	rural electrification project preparation TA
			TA 1943-BAN	Aug-93	12	24	36 planned	launching SEC
			TA with CMDP	Oct-97	27	13	40 planned	market surveillance/information/enforcement systems
							42 actual	
			TA BAN 3534	Nov-00	16	20	36 planned	capacity building of capital market institutions
			TA 26917	Dec-03	14	8	planned	financial markets governance
Livestock	Nepal	DLS, DDC, ADBN	LDP1		128		128 planned	
					137		137 actual	
			LDP2		35	36	71 planned	
					51	54	105 actual	
		DLS	LDP3		109	407	516 planned	
			CLDP (LDP4)		67	464	531 planned	

ADB = Agricultural Development Bank of Nepal, BAN = Bangladesh Power Development Board, CEB = Ceylon Electricity Board, CLDP = Community Livestock Development Project, CMDP = Capital Market Development Program, DDC = district development committee, DESA = Dhaka Electric Supply Authority, DESCO = Dhaka Electricity Supply Company, DLS = Department of Livestock Services, DOLIDAR = Department of Local Infrastructure Development and Agricultural Roads, DRILP = Decentralized Rural Infrastructure and Livelihoods Project, IS for RID = Institutional Strengthening for Rural Infrastructure Development, KG = Kali Gandaki 'A' Hydroelectric Project, LDP1 = Livestock Development Project, LDP2 = Second Livestock Development Project, LDP3 = Third Livestock Development Project, LDP4 = Fourth Livestock Development Project, LGED = Local Government Engineering Department, MLD = Ministry of Local Development, NEA = Nepal Electricity Authority, NWSDB = National Water Supply and Drainage Board, RIDP = Rural Infrastructure Development Project, RIIP = Rural Infrastructure Improvement Project, RMDC = Rural Microfinance Development Centre Ltd, RRP = report and recommendation of the president; SEC=Securities and Exchange Commission; SRI=Sri Lanka; STRCBWSSP=Secondary Towns and Rural Community-based Water Supply and Sanitation Project; STWSSP=Secondary Towns Water Supply and Sanitation Project; TA=technical assistance; TAR=Technical Assistance Report; TWSSP=Third Water Supply and Sanitation Project.

Totals may not equal the sum of the parts due to rounding.

Source: Asian Development Bank project documents.

Appendix 5: Assessment of Executing Agencies' Capacities

Appendix 5. Assessment of Executing Agencies' Capacities

Scores given by resident mission staff to executing agencies (1 = very low, 5 = very high)

Criterion	LGED	DOLIDAR	NWSDB	DESCO	PGCB	NEA	CEB	DLS
1 Ability to formulate policy, devise strategy, and plan	5	4	4	4	4	4	4	4
2 Ability to mobilize resources (knowledge, people, funds)	5	3	4	4	5	3	2	5
3 Ability to prepare and implement projects and programs	5	4	4	4	5	3.5	4	5
4 Ability to manage growth and development	4	4	3	4	4	3	3	4
5 Ability to monitor, evaluate, and learn from experience	5	2	3	5	4	3	4	5
6 Management's focus on increasing efficiency/reducing unit costs	4	2	2	5	5	2.75	3	4
7 Management's focus on the end users/customers/beneficiaries of services provided	3	3	2	5	4	2.25	2	5
8 Management's commitment to good governance (integrity, transparency, accountability)	3	2	3	5	5	2	2	4
Total	34	24	25	36	36	23.5	24	36
Percentage score (maximum total = 40)	85%	60%	63%	90%	90%	59%	60%	90%
Over the last 10 years, the executing agency has:								
improved substantially	X	X	X	X	X			X
improved a little							X	
deteriorated a little						X		

CEB = Ceylon Electricity Board, DESCO = Dhaka Electricity Supply Company, DLS = Department of Livestock Services, DOLIDAR = Department of Local Infrastructure Development and Agricultural Roads, LGED = Local Government Engineering Department, NEA = Nepal Electricity Authority, NWSDB = National Water Supply and Drainage Board, PGCB = Power Grid Corporation of Bangladesh.

Note: "Management" refers to the people in charge of day-to-day operations and so would normally include senior, full-time staff and officers, including executive board directors, but would exclude part-time board appointees and non-executive board directors.

Appendix 6: Diagnosis—The Main Capacity Issues that Needed to be Addressed

Table A6.1: Rural Infrastructure Sector

Type of Change	Area	LGED, Bangladesh	DOLIDAR, Nepal	NWSDB, Sri Lanka
Institutional Change	Sector Structure	Clear demarcation needed between roles/responsibilities of LGED and union councils (e.g., maintenance to be local government's responsibility).	Lack of functional focus: separate technical department needed (led to creation of DOLIDAR).	Independent regulatory body to set all tariffs needed. NWSDB needs more autonomy in staffing, financial management, operation and maintenance NWSDB's roles as owner, operator, regulator should be separated; adequate legal/regulatory framework lacking. Regulatory authority needs to be established; private participation required.
		Policies		
			Incomplete decentralization policy results in uncertainty over DOLIDAR's function. Civil service recruitment freeze is a constraint.	National water management policy needed. Policies and procedures for water rights/licensing needed tariffs for sewerage need to be introduced. Independent tariff setting mechanism needed; cross-subsidy structure is inefficient.
Organizational Change	Civil Administration	Union councils inadequately financed due poor tax collection; new "tax culture" needed. Poor governance at local level.	Uncompetitive salaries, weak linkage between performance and reward in the civil service.	Donor-supported projects must be manned by contract staff only, not by transferees from the executing agency. Public awareness of water management issues is poor.
	Service delivery	Involvement of local stakeholders in planning and design limited; participatory approaches underdeveloped. Union councils' capacity is weak.	More emphasis on road maintenance, as opposed to new road construction, required. Limited adoption of road maintenance programs by local government.	Overcentralized service delivery.

Type of Change	Area	LGED, Bangladesh	DOLIDAR, Nepal	NWSDB, Sri Lanka
Interorganizational Change	Management	Key posts need to be institutionalized; new training posts needed; training unit needed.	DOLIDAR has limited monitoring capability.	Operation and maintenance of NWSDB and local authorities needs improvement.
		Complete overhaul of planning, financial management, human resource policies, monitoring and evaluation, engineering, management required.	DOLIDAR made slow progress in formulating district transport master plans.	Accounting and financial management, information system, inventory management, human resource development need improvement.
		LGED staff need more experience in socio-economics; LGED staff need nontechnical training.	Management of district and village development communities is weak.	Appropriate performance targets lacking.
		LGED lacks structures, processes, expertise for benefit monitoring and evaluation.		
		Small-scale contractors require training.	Outputs of nongovernment organizations are substandard.	NWSDB needs to support capacity building of local authorities and encourage them to assume more responsibility.
		Closer engagement with local government/communities needed.	Private sector lacks social mobilization skills.	
			Local consulting firms are of poor quality.	
			DOLIDAR has difficulty meeting needs of different development partners.	

DOLIDAR = Department of Local Infrastructure Development and Agricultural Roads, LGED = Local Government Engineering Department, NWSDB = National Water Supply and Drainage Board.

Table A6.2: Power Sector

Change	Area	BPDB and DESA, Bangladesh ^a	NEA, Nepal	CEB, Sri Lanka
Institutional Change	Sector Structure	Limited delegation of powers from government to management and from management to staff. "Extent of improvements that can be made to existing power entities in their present form is limited."	NEA transmits and distributes—it needs unbundling; Nepal Power Grid Corporation to be established. Government closely controls NEA management and operations; NEA needs more autonomy and an independent board of directors. Sector needs a regulatory commission.	Union and management resistance to unbundling anticipated; also public reaction to tariff increases. More autonomy, more commercial orientation, decentralization of operations needed. Lack of competitive business environment. CEB cannot build equity funds or earn reasonable return on net assets. Government should restrict its role to taxation/subsidizing and privatization; regulatory commission would implement
	Policies	Tariffs set based on political factors. Entity losses compensated by long-term, low interest loans that distort market.	Tariff increases agreed but not executed. Government declined NEA's request for seasonal tariff to reduce costs. Most of NEA's costs are outside management's direct control.	Tariff setting politicized. Cumbersome procurement procedures; low authority levels, excessive committees (an Asian Development Bank technical assistance failed to strengthen capacity of Procurement Support Bureau).
	Civil Administration	Government policies on personnel and wages (not performance-based) are restrictive. Political unrest, labor militancy, peace and security enforcement, speed and quality of judicial processes, ability of education system to provide skilled labour are constraints.	Salaries/promotions not performance linked. Incentive schemes need to be introduced. Maoist insurgency creates a difficult operating environment for NEA.	Requirements of public service management, particularly those justified by Finance Act and various regulations are at root of procurement, human resource, and management accountability problems.

Change	Area	BPDB and DESA, Bangladesh ^a	NEA, Nepal	CEB, Sri Lanka
Organizational Change	Service Delivery	Insufficient and unreliable supply in urban and rural areas outside Dhaka.		Generation and load capacities inadequate. Poor focus on customer services.
	Management	Poor collections and cash management; high nontechnical system losses.	Financial accounting disorganized and unsatisfactory; slow to prepare accounts, audit; lack of qualified, motivated accounting staff.	CEB financial management "antiquated."
			Little attention to commercial matters. Technical planning weak (monthly marginal power supply costs). Need to improve operational performance.	Operational governance a problem. No management information system No integrated energy accounting system. Authority levels in CEB set too low.

BPDB = Bangladesh Power Development Board, CEB = Ceylon Electricity Board, DESA = Dhaka Electric Supply Authority, NEA = Nepal Electricity Authority.

^a These were the precursor entities (that still exist) out of which Power Grid Corporation of Bangladesh and Dhaka Electricity Supply Company were corporatized.

Table A6.3: Capital Markets and Livestock Subsectors

Change	Area	SEC, Bangladesh	DLS, Nepal (since the preparation of the Third Livestock Development Project in 1996)
Institutional Change	Sector Structure	Although SEC has operational autonomy (and this has improved), government still controls terms and conditions for Board members and staff and generally exercises authority over SEC. Until SEC can become self-financing, it will remain under the authority of government. However, the capital market in Bangladesh is unlikely to grow fast enough for SEC financial independence to be feasible in the foreseeable future.	
	Policies	SEC's efforts to formulate its own human resource policies, including staff compensation, in line with technical consultants' recommendations, are restricted by the need to follow Civil Service procedures and pay scales. Meager compensation of SEC staff means that it cannot attract people of the required caliber from the private sector.	Government controls and regulations tend to stifle investment and community initiatives.
	Civil Administration	SEC Board members have limited or no capital markets experience. The slow, unreliable court system impedes SEC's ability to prosecute offenders against capital market regulations in a timely manner (no cases brought despite strong indications of irregularities). High staff turnover at SEC is a significant constraint on the creation of institutional memory.	Anomalies in advancement of public service staff in their areas of expertise and transfer within the public sector are serious bottlenecks. DLS needs to be more output-oriented than input-preoccupied and to develop a facilitation capability if it is to serve adequately its beneficiaries.
Organizational Change	Service Delivery		DLS is weak at monitoring and evaluation. Competency levels of community-beneficiaries need to be raised before project.
	Management	Staff shortages constrained effective implementation of ADB technical assistance. Staff trained under capacity development interventions by the Asian Development Bank have left SEC for better pay elsewhere.	Shortage of trained people at all levels. Training is a major factor in unlocking rural productivity.

Change	Area	SEC Bangladesh	DLS Nepal (since the preparation of the Third Livestock Development Project in 1996)
Interorganizational Change		Confidence of capital market participants in SEC is low: it lacks transparency concerning its rule-setting and enforcement policies.	Risk of overstretching the capacity of nongovernment organizations since they are in demand by other sectors—hopefully addressed by training.
		Disclosure-based systems of regulation depends also on other capital market participants, especially stock exchanges, to regulate themselves satisfactorily, and on merchant banks to deliver services effectively.	
		A large number of member firms of stock exchanges have limited capitalization, weak governance structures, and inefficient operations.	
DLS = Department of Livestock Services, SEC = Securities and Exchange Commission.			

Appendix 7: Assessment ADB's CD Assistance Relative to Best Practice

Table A7.1: Rural Infrastructure Sector, Bangladesh, Main Executing Agency—Local Government Engineering Department (LGED)

Best Practice Feature	Rating	Comment
Local ownership; respect for local values; self-esteem	satisfactory	Equality in the primary relationship with donors (in the sense that demand for them from LGED's project implementation services is balanced by LGED's own ambitions for new projects) means that project ownership is not really an issue. LGED initiative to prepare its own feasibility study for RIIIP indicated confidence in its own planning capabilities, not a desire to move away from the type of project ADB had supported previously.
Suitability of incentives	good in practice if not in principle	Civil Service terms and conditions of service would be demotivating for LGED staff, but close involvement with multiple donors has provided opportunity (taken up by the first DG) for organizing an informal system of incentives (perks, fringe benefits) not generally available to other government departments. The system continues, due to unofficial autonomy afforded to LGED by its good relationship with Ministry. ADB project resources (training, key posts) are probably part of this incentive system.
Use of existing capacities/ integration of external inputs with national priorities, processes, systems	good	Throughout ADB's engagement, use has been made of existing local administration structures for service delivery. Recent projects have sought to build on existing informal community structures, particularly concerning local markets. ADB's interventions have been in line with national strategies and policies, of which those concerning decentralization, poverty reduction, and participatory development processes are particularly relevant. Substantial use is made of local consultants.
Adaptation of "imported" models to local requirements and conditions	good	Success of MANCAPS technical assistance demonstrated the compatibility of a model that reflected best public sector organization practice at that time. Subsequently, use also made of successful subregional experiences.
Extent to which EA is a driver for change, reform leader	potentially large	LGED's public profile was significantly raised due to strong leadership committed to effective service delivery. The ambitious agenda in terms of transforming LGED's role from primary provider to enabler/facilitator (in ADB and other projects) may mean it is serving as a change leader for other relevant public sector agencies.
Sequencing	good (but by design or default?)	Logical sequence: 1—significantly strengthen LGED as a technically based provider of infrastructure; 2nd—use LGED to develop the capacity of government and community bodies at the local level to manage infrastructure development; 3—reposition LGED as sector development enabler, with much service provision outsourced to the private sector.
Processes	satisfactory	CD objectives generally clearly distinguished from other (e.g., investment project implementation) objectives, particularly in more recent interventions. Organizational culture developed that supports capacity development goals. Policies and procedures established that make good use of newly acquired knowledge. Not clear how far results-based management is actually practiced.
Partnership/engagement	strong	ADB interventions well integrated with other donors'. Close and sustained partnership with LGED, resulting in substantial mutual trust. Early recognition of need to strengthen capacity of local contractors and local government staff in their role as partners to LGED.
Accountability to beneficiaries	low initially, but improving	Problems with road maintenance suggest lack of ultimate beneficiaries' involvement in decision making re. infrastructure development; this should improve with RIIIP's emphasis on stakeholder capacity building and participation. LGED's monitoring and evaluation capability continues to be highlighted by ADB as problematic and requiring redressal.

ADB = Asian Development Bank, CD = capacity development, DG = director general, LGED = Local Government Engineering Department, MANCAPS = Strengthening LGED's Management Capability, RIIIP = Rural Infrastructure Improvement Project, TA = technical assistance.

Table A7.2: Rural Infrastructure Sector, Nepal, Main Executing Agency—Department of Local Infrastructure and Development of Agricultural Roads (DOLIDAR)

Best Practice Feature	Rating	Comment
Local ownership; respect for local values; self-esteem	high	Creation of DOLIDAR during implementation of RIDP provided close identification by EA with RIDP and its successor DRILP, so few problems occurred with project ownership in principle. Perceived new mission to "socialize" the delivery of its services fostered strong "esprit de corps" among engineers. However, the ministry is less committed to CD interventions than was DOLIDAR.
Suitability of incentives	satisfactory	No specific incentives other than opportunity to work with consultants and NGOs on professionally challenging projects strongly supported by donors and, to this extent, offering career development opportunities. First DG inspired staff and built up high morale and strong motivation associated with working on ADB-supported projects. However, EA considers motivation of and/or incentives for counterpart staff not always sufficient.
Use of existing capacities; integration of external inputs with national priorities, processes, systems	satisfactory	RIDP established a project management office and district project implementation units (which goes against international CD orthodoxy but agrees with ADB views). In DRILP, the project coordination unit used the existing District Road Support Program management structure. District-level implementation used the existing structure of district technical offices within DDCs.
Adaptation of "imported" models to local requirements and conditions	good	Local training organizations and consultants were used. RIDP and DRILP designs were based closely on best practice of other rural infrastructure projects in Nepal supported by donors, particularly GTZ and SDC. These labor-based, environmentally friendly construction methods result from long-term experience and testing of different approaches. Participatory features build on Nepal's tradition of local community self-help.
Extent to which EA is a driver for change, reform leader	potentially large	RIDP not especially innovative, but DRILP has ambitious objectives that aim to move rural power structures toward more egalitarian arrangements. If they succeed, the impact of "reform by example" should be very high.
Sequencing	too soon to assess	DRILP (2004) extends mission of RIDP (1996) to transform EA from a technical- and engineering-focused organization to one capable of developing capacity of DDCs and the private sector to manage decentralized infrastructure provision. Some signs that DOLIDAR's learning ability may be overstretched if insufficient time is allowed for internalizing lessons of experience.
Processes	basically sound	Clear focus on behavioral change (including attitudes to road maintenance as opposed to construction) in DOLIDAR and local level EAs. Heavy reliance on consulting services (70% more in DRILP than in RIDP) to help execute multiple tasks of engineering management improvements, local level capacity building, better social mobilization, and stronger monitoring.
Partnership; engagement	strong, but still to be fully tested	Close and sustained relationship between ADB and DOLIDAR, with substantial mutual trust. Too early to gauge durability of relationship with NGOs which are called upon to play an increasingly important role in infrastructure provision.
Accountability to beneficiaries	low up to now	Continuing weak monitoring and evaluation means that accountability is stronger in principle than in practice. May improve if NGO involvement works well.

ADB = Asian Development Bank, CD = capacity development, DDC = district development committee, DG = director general, DOLIDAR = Department of Local Infrastructure Development and Agricultural Roads, DRILP = Decentralized Rural Infrastructure and Livelihoods Project, EA = executing agency, GTZ = German Agency for Technical Assistance, NGO = nongovernment organization, RIDP = Rural Infrastructure Development Project, SDC = Swiss Agency for Development and Cooperation.

Table A7.3: Infrastructure Sector, Sri Lanka, Main Executing Agency—National Water Supply and Drainage Board (NWSDB)

Best Practice Feature	Rating	Comment
Local ownership; respect for local values; self-esteem	generally good	EA recently prepared corporate plan and ADB agreed to support it, instead of the original WSSP4. However, ADB need to institutionalize this approach, including providing training on a demand basis. EA staff members' views on ownership mixed: some feel have full ownership, with externally supported projects an opportunity to advance NWSDB goals, others consider that consultants are given responsibilities that should be given to counterpart staff.
Suitability of incentives	not entirely suitable, but pragmatic	Substantial donor support, particularly from bilaterals, has provided widespread incentives in overseas training. Some doubt its efficacy and efficiency. ADB is aware of the dangers and tries to ensure better alignment of incentives with CD intervention objectives. NWSDB human resources systems recognize and reward training.
Use of existing capacities; integration of external inputs with national priorities, processes, systems	fairly satisfactory	EA perceived major design flaw in WSSP3: bilaterally funded training component bypassed NWSDB's Training Division, which starved of resources (belated attempt was made to remedy this). Balance of international and local consultants and their roles in technical assistance is an issue.
Adaptation of "imported" models to local requirements and conditions	fairly satisfactory	Models for CD of local authorities less successfully adapted than the models for community based and other nongovernment organizations.
Extent to which EA is a driver for change, reform leader	fairly large	Recent political changes resulted in some resistance to sector restructuring and reforms. NWSDB perceived publicly as effective service provider, with reform agenda being driven by ADB, among others.
Sequencing	reasonably satisfactory	Successful community-based rural water supply initiatives (started as pilot projects) gave practical effect to Government's policy of decentralized service provision involving private providers and civil society. Logical sequence: 1—improve NWSDB's operational efficiency and financial viability, and raise public awareness of water management issues; 2—promote sector policy reforms and support decentralized service provision. Sequence not well adjusted to later changes of government attitude and policy toward sector reform.
Processes	fairly satisfactory	CD objectives not always clearly distinguished from other (e.g., investment project implementation) objectives, and scope of consultants' CD work sometimes not well defined. However, good use made of consultants, who were mostly effective. But NWSDB wants more flexibility from ADB re. consultant and training inputs as implementation progresses.
Partnership; engagement	generally strong	Not clear how far results-based management actually practiced. ADB interventions quite well integrated with other donors'. Close and sustained partnership with NWSDB. Valuable support given to CD of local contractors in post-conflict areas.
Accountability to beneficiaries	improving	Emphasis on beneficiary accountability increased with later CD interventions.
ADB = Asian Development Bank, CD = capacity development, EA = executing agency, NWSDB = National Water Supply and Drainage Board, WSSP3 = Third Water Supply and Sanitation Project, WSSP4 = Fourth Water Supply and Sanitation Project.		

Table A7.4: Power Sector, Bangladesh, Main Executing Agency—Bangladesh Power Development Board (BPDB), Dhaka Electricity Supply Authority (DESA), predecessors of Power Grid Corporation of Bangladesh (PGCB) and Dhaka Electricity Supply Company (DESCO)

Best Practice Feature	Rating	Comment
Local ownership; respect for local values; self-esteem	quite high	ADB said Government was to be complimented on following through difficult, politically sensitive action that led to law and order problems. Government has always delivered on conditionalities since the reform program began in 1994. Recently, the Government has, on its own initiative, started rationalizing retail electricity tariffs for BPDB and DESA.
Suitability of incentives	poor/intractable until corporatization occurs, then good	Inadequate incentive system in Civil Service is a severe constraint, not easily remedied through CD intervention in government departments. CD interventions to corporatize government departments are effective in creating opportunities to introduce incentive schemes for management and staff that are appropriate for a commercial enterprise in a competitive environment.
Use of existing capacities; integration of external inputs with national priorities, processes, systems	good	Power Sector Master Plan 1995–2010 (1995) much valued by BPDB, which is capable of updating it and using it to plan network extensions. BPDB staff can produce complete analyses of current and planned systems unaided. Commissioned studies driven by BPDB managers. Unlike some donors, ADB does not insist on PGCB using consultants for project implementation.
Adaptation of "imported" models to local requirements and conditions	good	Entire strategy for power sector restructuring and policy reform is based on successful experiences and best practices in other countries, but 'corporatization is a "local" (subregional?) adaptation since sector entities are government departments rather than state-owned statutory corporations that were usually the pre-reform entities elsewhere.
Extent to which EA is a driver for change, reform leader	substantial	PGCB, DESCO and Rural Power Company (created by CD intervention) are good examples of the potential for transforming bureaucratically managed government departments into commercially oriented enterprises that are more accountable to their clients. Technical assistance for soliciting private investment by independent power producers was successful and created capacity in EAs to do it themselves.
Sequencing	basically sound	In principle, restructuring and policy reform sequence is: 1—improve efficiency in government entities; 2—unbundle these into generation+transmission+distribution units and corporatize these; 3—solicit private sector participation; and 4 (or 2)—establish an independent sector regulator and transparent tariff-setting formulas. In practice, the first step is repeated as government "department-type" entities continue alongside corporatized ex-departments.
Processes	sound in case of corporatization CD blueprint approach	Corporatization processes (legislation/incorporation, capital restructuring, asset/liability allocation, governance arrangements, procurement procedures, technical operating plan, business plan, financial management systems, HR policies/procedures, personnel recruitment & remuneration, etc) are clear cut with in-built results based driver.
Partnership; engagement	excellent	ADB very persistent, staying engaged despite World Bank withdrawing over governance issues and DfID considering doing so due to DESA's failure to achieve agreed targets. ADB view is that BPDB's and DESA's continuing poor performance is reason for deepening reform rather than relinquishing it.
Accountability to beneficiaries	probably satisfactory more recently	In later years, diagnosis and design of restructuring and policy reform involve stakeholder consultation (briefing and feedback through workshops and seminars).

ADB = Asian Development Bank, BPDB = Bangladesh Power Development Board, CD = capacity development, DESA = Dhaka Electric Supply Authority, DESCO = Dhaka Electricity Supply Company, DfID = Department for International Development, EA = executing agency, HR = human resources, PGCB = Power Grid Corporation of Bangladesh.

Table A7.5: Power Sector, Nepal, Main Executing Agency—Nepal Electricity Authority (NEA)

Best Practice Feature	Rating	Comment
Local ownership; respect for local values; self-esteem	variable	More ownership of ADB-supported CD interventions by NEA than by line ministry (water resources), hence NEA's internal unbundling initiative when government slow to implement sector restructuring. Government generally reluctant to accept TA unless attached to loan, which implies weak ownership of many CD projects.
Suitability of incentives	limited opportunity to incentivize	Scope for improving incentives is limited in absence of substantial corporatization and associated increase in management autonomy of power sector entities.
Use of existing capacities; integration of external inputs with national priorities, processes, systems	variable	TA for management reforms and efficiency improvements at NEA (not implemented) was quite aggressive, suggesting insufficient regard for local processes and systems. NEA considers it does not need more technical help and finds the way ADB selects consultants sometimes unhelpful. The latest TA emphasizes the need for consultants to work with the relevant government task force (rather than for it). Although some donors were sceptical of NEA's internal unbundling exercise, ADB eventually accepted it as going in the right direction and built it into its own CD intervention.
Adaptation of "imported" models to local requirements and conditions	reasonable	Entire strategy for power sector restructuring and policy reform is based on successful experiences and best practices in other countries, but corporatization is a local variant. NEA is appreciative that ADB took on board NEA's own attempt at unbundling, even though this fell short of the standard corporatization requirement.
Extent to which EA is a driver for change, reform leader	unclear	Power sector restructuring and policy reform debate is very visible publicly, but the extent of its positive impact by example is unclear.
Sequencing	probably sound	ADB has a logical approach of providing TA for preparation of road map and reform plans, supplemented by follow-on TA for implementing reforms. NEA disagrees over sequencing: believes NEA should reach its full potential before unbundling starts, and policy is needed for transmission function first. ADB's experience is that potential is hard to realize without at least corporatization (hence the CD intervention to create the transmission corporation NEPGRID).
Processes	sound in principle, not always in practice	Although sector CD strategy is apparent to NEA, clarity of objectives sometimes obscured by the CD method. Thus, NEA sees details of road map as too vague to justify dismantling of NEA, and finds many manuals prepared by consultants not very useful because they are too complicated. Consequently, NEA is writing its own manuals for consultants to review (paid by donors).
Partnership; engagement	good	ADB has been a long-term partner. Many financiers are engaged in the power sector. USAID is supporting institutional (regulatory) reform. ADB is supporting organizational (NEA) reform.
Accountability to beneficiaries	becoming better	Not a prominent feature of CD interventions earlier, but greater emphasis later; e.g. ADB recognizes the need to link rural electrification projects to other livelihood improvement and rural development projects.

ADB = Asian Development Bank, CD = capacity development, EA = executing agency, NEA = Nepal Electricity Authority, NEPGRID = Nepal Power Grid Corporation, TA = technical assistance, USAID = United States Agency for International Development.

Table A7.6: Power Sector, Sri Lanka, Main Executing Agency—Ceylon Electricity Board (CEB)

Best Practice Feature	Rating	Comment
Local ownership; respect for local values; self-esteem	perhaps not as good as may seem at first sight	CEB apparently did not feel the Energy Sector Master Plan was "theirs" because of the way in which it was prepared. CEB apparently did not want the Rural Electrification and Network Expansion project and see it as "ADB's project." ADB did try to increase local ownership of major sector restructuring proposals by leaving it to a government steering committee to select options from those identified by consultant teams. CEB is frustrated that it cannot approach ADB directly with project proposals, but has to go through the Ministry of Finance. The previous administration (before recent political realignment) showed much stronger commitment to sector restructuring and policy reforms than the present one.
Suitability of incentives	(difficult to assess)	ADB recognizes stress on EA staff caused by sector restructuring/reform, but no specific measures proposed to build the needed "motivation and enthusiasm of LECO's management and workforce."
Use of existing capacities; integration of external inputs with national priorities, processes, systems	not always satisfactory	CEB planning staff reportedly demoralized by consultants being brought in to prepare generation master plan. TA for preparing the Rural Electrification Project pays lip service only in consultants' terms of reference to building project preparation capacity in the new distribution companies, despite the avowed TA intention. However, detailed planning and implementation of unbundling is being left to teams comprising CEB and LECO staff.
Adaptation of "imported" models to local requirements and conditions	local acceptance is an issue	Foreign models of power sector restructuring and policy reform (e.g., from Australia and the United Kingdom) are justified on grounds that electricity tariffs will be reduced in the long run. However, public awareness campaigns on issues seem not to have had much impact on union/employee resistance to change—more intensive dialogue is needed. Allowing government steering committee discretion over major restructuring options is seen by ADB as "creating Sri Lankan solutions to the issues."
Extent to which EA is a driver for change, reform leader	EA is seen as being under pressure to change	ADB has high public profile over its stance on power sector restructuring and policy reform and is seen as the champion of privatization and market liberalization as the basic solution to inefficiency and poor service in the sector. Thus, CEB is seen to be a test to some extent of the government's ideology, and hence is politically sensitive.
Sequencing	needs clarification	In principle, sequencing of CD interventions follows the blueprint for power sector restructuring/reform. However, that the Energy Sector Master Plan TA left it to the consultants to recommend capacity building measures suggests there is no clear road map in practice.
Processes	room for improvement	CEB considers consultants are not always used efficiently; CEB staff seldom acquire new knowledge. CEB suggests too little attention in CD interventions is given to achieving behavioral change as opposed to delivering technical solutions and executed projects.
Partnership; engagement	good	Despite the above weaknesses in CD interventions, CEB sees its relationship with ADB as constructive and based on mutual trust. CEB appreciates ADB's willingness to be flexible over project scope when a good case exists for modification. Recent political events have put pressure on the sustainability of government commitment to power sector restructuring/reform and ADB will need patience to stay engaged.
Accountability to beneficiaries	satisfactory	Program loan TA sought to build consumer awareness and public understanding and to promote dialogue between the public and the regulatory commission. Rural electrification TA focused strongly on the need to improve intra-village connectivity (from 45–65% of households to 80–85%).

ADB = Asian Development Bank, CD = capacity development, CEB = Ceylon Electricity Board, EA = executing agency, LECO = Lanka Electricity Company, TA = technical assistance.

Table A7.7: Capital Markets Subsector, Bangladesh, Main Executing Agency—Securities and Exchange Commission (SEC)

Best Practice Feature	Rating	Comment
Local ownership; respect for local values; self-esteem	fairly strong	<p>After its establishment, SEC Advisory Committee met only once in 2.5 years. MOF gave strong support for CMDP and SEC for the attached TA on capacity building of SEC and stock exchanges.</p> <p>SEC considers ADB should leave SEC to judge when there are opposing views (e.g., concerning rules for brokers with merchant banking functions).</p> <p>ADB agreed to adjustments to program components (e.g., removal of demutualization) when SEC judged them impractical.</p>
Suitability of incentives	a problem area	<p>Government at various times has agreed to look at ways of augmenting meager (Civil-Service-determined) compensation for SEC staff. The condition that staff who went abroad for training should subsequently remain with SEC for 3 years did not prevent them from leaving prematurely. Later TA used an SEC panel to screen external training allocations.</p>
Use of existing capacities; integration of external inputs with national priorities, processes, systems	generally satisfactory	<p>Satisfactory arrangements were made for integrating the work of consultants with SEC staff in some cases, but in others counterpart staff were mainly required to provide logistical rather than professional support. Not much input by SEC to Project Preparation TA.</p>
Adaptation of "imported" models to local requirements and conditions	quite good	<p>At early stages of SEC development, SEC staff members went on training/study tours in other Asian countries that had been through the same stage of capital markets development. SEC regulations/procedures were adapted to the emerging situation in Bangladesh. A later TA reviewed regional examples of SEC funding, income, and salaries to search for models that could be effectively applied in Bangladesh to address the issues of lack of independence and low staff compensation in SEC.</p>
Extent to which EA is a driver for change, reform leader	an assumed role	<p>ADB is mainly driving the capital market reforms, with support from some parts of government but not from others.</p>
Sequencing	sequencing possibly too fast	<p>While each successive TA built logically on the scope of the previous one, there was considerable repetition, suggesting pace of change for SEC may have been too fast for sustained acquisition of new knowledge and skills and adjustment to new structures, policies, and function, given the quantity and quality of SEC staff available.</p>
Processes	generally satisfactory	<p>Mostly standard management consulting approaches are used to organization building with their attendant strengths and limitations.</p>
Partnership; engagement	good	<p>Sustained efforts by ADB, in concert with other financiers.</p>
Accountability to beneficiaries	satisfactory in the circumstances	<p>CMDP completion report concluded that TA and training focused too much on SEC, to the neglect of capacity development needs of other capital market participants. This partly remedied later by TA addressing corporate governance of public companies, listed security issuers, stock exchanges, brokers, dealers, merchant banks, asset management companies, etc., indirectly by improving SEC's ability to diagnose failings and intervene appropriately. New program aims to train and test market players.</p>

ADB = Asian Development Bank, CMDP = Capital Market Development Program, SEC = Securities and Exchange Commission, TA = technical assistance.

Table A7.8: Livestock Subsector, Nepal, Main Executing Agency—Department of Livestock Services (DLS)

Best Practice Feature	Rating	Comment
Local ownership; respect for local values; self-esteem	high now	This extended from DLS (which was closely involved in designing LDP3 and 4) to farmer beneficiaries due to high level of participation in planning and execution. Emergence of farmer-group approach suggests good alignment with local values. Morale in DLS is relatively high, which suggests positive professional self-esteem.
Suitability of incentives	suitable	Training fellowships were valued by DLS staff.
Use of existing capacities; integration of external inputs with national priorities, processes, systems	fairly good	PMUs still seem to be favoured device for project implementation, which seems to go against the usual organization by function, service, and/or geographical area. However, the center-district management responsibilities were left intact.
Adaptation of "imported" models to local requirements and conditions	became much better	Poor in earlier years, when systems/technologies inappropriate to local infrastructure and organization were introduced. Later, much better, with some notable successes building on rural Nepal's tradition of group DLS was encouraged to pioneer far-reaching changes in socioeconomic structures and participation at the village level.
Extent to which EA is a driver for change, reform leader	very high	
Sequencing	poor at first, becoming better	Initial emphasis was on "advanced" technology transfer to DLS before it had effective means of ensuring uptake by end users. Later emphasis was on improving DLS capacity as enabler of service provision.
Processes	became better	According to DLS, ADB became more flexible regarding both project design and implementation.
Partnership; engagement	close and sustained	Long engagement despite initial disappointments, good personal relationships developed, strong commitment by both parties to find the best approaches and make things work. Too early to gauge relations with nongovernment organizations (etc.) on which heavy reliance is placed to enter into partnerships with DLS and
Accountability to beneficiaries	low at first, becoming better	Continuing weak M&E means that accountability is stronger in principle than in practice.

DLS = Department of Livestock Services, LDP3 = Third Livestock Development Project, LDP4 = Fourth Livestock Development Project.

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About Capacity Development In South Asia

This study deals with the important topic of capacity development (CD). Every year, ADB invests substantial resources in assisting its counterpart executing agencies to increase their capacities. The idea for this study stemmed from a view among senior staff of ADB's South Asia Department that there was considerable scope to enhance the efficiency and effectiveness of ADB's capacity development interventions in South Asia. The analysis is based on a sample of CD interventions 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 study analyzes the impact of ADB's CD interventions on the capacity of key executing agencies to perform their functions and how this impact could be further enhanced.

The conclusion is that "Most of the sector/country experiences selected for this study have been success stories for ADB. In South Asia, ADB has been doing better than it thinks it has." However, the study still identifies important problems and lessons. To further enhance the impact of CD interventions in South Asia, the study proposes a major change in the way ADB supports CD.

About the Asian Development Bank

ADB aims to improve the welfare of the people in the Asia and Pacific region, particularly the nearly 1.9 billion who live on less than \$2 a day. Despite many success stories, the region remains home to two thirds of the world's poor. ADB is a multilateral development finance institution owned by 67 members, 48 from the region and 19 from other parts of the globe. ADB's vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their quality of life.

ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. ADB's annual lending volume is typically about \$6 billion, with technical assistance usually totaling about \$180 million a year.

ADB's headquarters is in Manila. It has 26 offices around the world and more than 2,000 employees from over 50 countries.

