

Capacity Development BRIEFS

SHARING KNOWLEDGE AND LESSONS LEARNED

CAPACITY DEVELOPMENT IN THE WORLD BANK GROUP: A REVIEW OF NONLENDING APPROACHES

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The World Bank Group has consistently spent considerable sums and emphasized the importance of capacity development to achieving the Millennium Development Goals (MDGs). Capacity development is included as a development objective of two-thirds of the Bank's lending operations and is increasingly a focus of the Bank's country assistance strategies. But it is often in the Bank's nonlending work—which is spread across the institution—where much innovation and experimentation take place. This nonlending business draws both on the Bank's own budget as well as on donor trust funds, Bank-wide grant instruments, and other funding mechanisms. The business models guiding this work are diverse and evolving, and some may point the way to successful practices that could be used elsewhere. This brief focuses on capacity development approaches in the growing area of nonlending programs. It discusses differences in these approaches in terms of design, instruments, delivery mechanisms and funding, and highlights an often overlooked, but large and growing part of the Bank's overall work.

The World Bank Group supports capacity development in almost all of its work. But although capacity development interventions are widespread within lending operations, the Bank's nonlending activities are a growing and increasingly innovative laboratory for capacity development practice. Roughly adding together the budgets of some of the Bank's major programs suggests that total spending for nonlending capacity development is about \$550 million annually, financed by Bank-executed trust funds, the Bank's own budget, and through direct support from donors.

This work, which for the purposes of this brief is defined broadly as activities that have a stated goal of improving individual, organizational and broader institutional capacities in a country, is spread widely throughout the Bank. It includes specific, well-defined Bank products, such as nonlending technical assistance, training, some economic and sector work, as well as some research and other knowledge-sharing activities that the Bank facilitates for its partner countries. World Bank units directly carry out much of this work. To cite a few examples, the International Finance Corporation (IFC) Advisory Services unit provides training and technical assistance to small and medium enterprises and its Foreign Investment Advisory Services (FIAS) works closely with governments on regulatory reforms. The World Bank Institute (WBI) offers technical assistance, training, and knowledge- and consensus-building activi-

ties to external clients. The World Bank Treasury assists member central banks in developing the expertise necessary to manage their foreign currency reserves through the Reserves Advisory and Management Program (RAMP). The Bank's Development Economics group (DEC) attempts to build statistical capacity within client countries, and the Bank's networks and regions receive significant funding to support capacity development in their work.

A Counting Problem

Compiling a clear inventory of nonlending capacity development programs within the Bank Group presents a number of difficulties. Although the growing literature on capacity development has clarified the concept somewhat, the lack of a widely accepted operational definition within the Bank Group impedes efforts to categorize, measure, and quantify this work, which is often integrated within larger programs and units. Many task managers define support to capacity development as a limited number of specific interventions within projects or programs, such as training and technical assistance, while others use a much broader definition that encompasses all analytic and advisory work, as well as support for policy reforms, certain kinds of equipment, and other spending.

The definitional question also means that it is difficult to extract data from existing Bank systems or quantify



spending on capacity development. Based on data from various Bank Web sites and program documents, the \$550 million estimate for fiscal 2006 includes support from both bilateral trust funds and the Bank's own budget. This includes \$135 million for IFC's Advisory Services, \$147 million from the Bank's trust fund programs for capacity building, \$172 million from the Development Grants Facility, \$43 million for WBI¹, and another \$50 million through a variety of other smaller programs, such as the Treasury's RAMP program, DEC's Statistical Capacity Program, the Carbon Finance Assist Initiative, and the Mediterranean Technical Assistance Program.

Capacity Development within Bank Networks and Regions

Overall, Bank regions and networks are collectively the largest producers of nonlending capacity development programs, implementing well more than half of the Bank's total output.² Among the networks with the highest engagement in capacity development programs is the Sustainable Development Network, which supports initiatives such as the Consultative Group on International Agricultural Research (CGIAR) and the Nile Basin Initiative, which focus on strengthening environmental capacities. Under the Infrastructure Network, major capacity development programs include the Sub-Saharan Africa Transport Policy Program, Cities Alliance Program, and Water and Sanitation Program. The Human Development Network supports capacity development through programs such as the Global Forum for Health Research, UNAIDS, and Population, and Reproductive Health Capacity Building Program.

Because this work is financed mainly by trust funds and spread throughout the Bank, few of these programs are subject to a common design principle or results framework. Indeed, according to a review of nonlending technical assistance (NTLA) carried out by the Quality Assurance Group (QAG) in 2005, lack of rigor in coding of NTLA in the Bank's management accounting systems makes it difficult for the Bank simply to quantify much of this work. Close to 50 percent of the NTLA tasks reviewed by QAG were improperly coded, explaining one of the main reasons the Bank faces an ongoing problem analyzing, quantifying, and reporting on its capacity development activities. Nevertheless, much of the work supported by Regions and Networks was found to be relatively successful in achieving its intended objectives. Moreover, because it tends to be closely related to overall Bank goals and country objectives, this work received high ratings from QAG for its strategic relevance and timeliness.

RAMP: Fee-Based, Peer-to-Peer Support for Central Banks

Other parts of the Bank have also made strides in developing results-focused approaches to capacity development. One innovative business model for nonlending capacity development programs has been developed by the Bank Treasury under the name of RAMP. This

program provides assistance to member central banks in building the expertise necessary to manage their foreign currency reserves and has been highly successful in helping partner central banks develop the capacity to manage their reserves.

The program employs many of the good practice approaches that have been associated with improved outcomes in capacity development programs.³ The methodology includes the following features:

- Initial on-site diagnosis carried out by senior Treasury staff
- In-depth assistance, which may include a program of training, workshops, seminars, internships, or other technical support requested by the client
- Real-time, peer-to-peer exchanges with Bank Treasury staff who follow up with ongoing long-term support for specific problems that participants encounter back home.

After the clients leave the initial program, Bank Treasury staff are given time to spend on follow-up visits, e-mail exchanges, telephone calls, or other activities with client staff. This personal engagement is highly valued among the clients and has proved highly effective in getting results at partner central banks.

An important part of the RAMP model is its financial arrangements, which encourage strong client ownership. The services are not provided free of charge, but countries pay for RAMP engagements by either placing assets with the Bank Treasury for management or simply paying fees for services.

IFC Advisory Services

IFC supports capacity development through its Advisory Services unit, which is intended to enhance private sector development and improve the investment climate at the country level. Increasingly playing a pivotal role in IFC's investment operations, this advisory work has grown rapidly in recent years; expenditures increased from \$84.7 million in fiscal 2004 to \$135.5

¹The WBI figure includes \$33 million in Bank budget and \$10 million in trust funds for thematic and sector programs in fiscal 2007.

²Capacity development programs within the Bank's networks and regions are funded mainly by trust funds that are used to support a broad range of activities. In fiscal 2006, total funds disbursed reached \$4.4 billion, of which \$147 million was labeled as supporting capacity building and technical assistance. However, a large number of other trust-funded programs within the networks and regions also include embedded capacity development components making it difficult to give exact numbers for the capacity development components.

³For a discussion on "good practice" in capacity development, see for example, OECD/DAC (2006): *The Challenge of Capacity Development: Working towards Good Practice*.



An Example from IFC: Combining Investment with Advisory Services

An example of how the two arms of IFC—investment and advisory services—can enhance each other's contribution is the case of the privatized Algerian fertilizer company Fertial. The new owners and the government of Algeria agreed that Fertial would commit to developing products for the local market in support of the agricultural sector. The company approached IFC's PEP facility in Cairo to help them create training centers for farmers and government workers to learn how to improve their use of fertilizer. As a first step, IFC investment and advisory service units arranged for joint meetings, provided investment training for technical assistance staffers, and organized combined appraisal trips. Through joint discussions with Fertial, the two IFC groups worked together to make sure the investment would be well spent to maximize the development impact.

million in fiscal 2006. Donor trust funds finance about 60 percent of this work, whereas IFC income finances the rest. These services are usually provided on a stand-alone basis, although they may be coupled with investment financing to provide a full package of services to the client. Less than 15 percent of this work is currently linked to investment operations, but teams increasingly see the value of linking advisory work to lending, arguing that such packaging increases the chances of favorable development outcomes.

Similar to other Bank units offering technical assistance, IFC may adopt either a wholesale or a retail approach in delivering these services. Where existing local capacities are weak and sustainability of reforms is a concern, IFC helps local consulting firms build up their product line to offer advisory and training services on a for-profit basis. This approach ensures that capacity stays within the country, is scaled up and offered in ways that are relevant to local market needs. At other times, IFC uses a one-business-at-a-time retail model through which foreign consultants offer direct assistance that is not available in the local market.

Another element in IFC's advisory work is systematic internal monitoring, which is intended not only to track spending, but also improve project quality. IFC uses iDesk, an internal platform that requires task managers to provide details of project design and implementation progress. Managers from a variety of sectors review the projects before they start to ensure that they have incorporated recognized good practice and that indicators of progress have been carefully defined. The system also allows IFC to monitor progress along the way.

Although IFC specializes in working with private sector companies, significant work is also under way to support country governments in improving their investment climate to attract foreign investors. Funded by multiple donors, FIAS is a largely demand-driven service of IFC that responds rapidly to advisory needs of client governments on regulatory reforms. In recent years, FIAS work has shifted from pure investment climate diagnoses to a stronger focus on solutions and implementation. It has also expanded to include the Multilateral Investment Guarantee Agency's technical assistance unit, which focuses on strengthening the capacity of investment promotion intermediaries to attract more investment.

WBI: Capacity Development through Knowledge Sharing

WBI supports development by building knowledge, awareness, and consensus on policy issues. Its programs are designed to build individual skills through training and knowledge-sharing activities and also to strengthen organizational entities and country enabling environments through technical assistance. WBI currently employs a country-focus strategy that is aligned with the Bank's operational priorities and supports country assistance strategies.

Over the years, WBI has developed pedagogical and blended learning methods to enhance learning among adults from different backgrounds. For example, the Shanghai poverty conference in 2004, which attracted more than a thousand participants from more than 60 countries, was preceded by a menu of case studies, online dialogues and on-site visits to successful projects. WBI also acts as a knowledge hub on capacity development issues and disseminates good practices and lessons learned within the Bank and the international community. One of the best-known areas of this knowledge generation is governance and anticorruption, through which international and country-level measures and diagnostics are widely used to help build consensus on reforms.

Bank operational units often ask WBI to help project teams design capacity development interventions. Many clients see WBI as a relatively neutral platform to help facilitate policy debates and to coordinate dialogues not only with the Bank's traditional government partners, but also with diverse stakeholders, such as civil society, media, and parliament.

Like IFC and RAMP, WBI has recognized the critical role of careful, up-front design and work within a customized results framework. The framework focuses on delivering results in six broad categories:

- Raising awareness
- Developing leadership and teams
- Formulating strategy and policy
- Implementing know-how
- Building skills
- Fostering consensus and networks.

An Example from WBI: Strengthening Policy Analysis in the Bangladesh Central Bank

WBI has helped to strengthen the Bangladesh Central Bank's analytical capacity through a long-term technical assistance program. With WBI support, the bank created a policy analysis unit within its research department to provide guidance to the bank on emerging policy issues and advise the Bangladesh government on economic and fiscal policy. The Bank also produces several public policy papers, such as financial sector reviews and monetary policy reviews, which have been seen as indicating the growing policy influence of the central bank. From the beginning of the program, WBI focused on building local ownership for reforming work processes and incentives: annual work plans were outlined and budgets and product lines were clearly defined. WBI follows up and supervises the development of the unit and provides customized input on specific areas of demand. It also provides a platform for knowledge exchange by bringing in national, regional, and international expertise and experience.

DEC: Trust Fund for Statistical Capacity Building

DEC attempts to build statistical capacity through STATCAP, a program that is financed by both lending and trust funds. The Trust Fund for Statistical Capacity Building is a multidonor fund administered by the World Bank, which helps strengthen statistical systems in developing countries in such areas as data collection, analysis and dissemination, and the use of good quality statistics needed for policy-level decision makers. For example, in fiscal 2006 the fund allocated about \$1 million for programs such as "National Strategies for Development of Statistics for the Central American Countries," and "Development of a Reference Regional Strategic Framework for Statistical Capacity Building in Africa."

Country ownership, commitment, and sustainability are critical elements within programs. In this respect, recipient countries are required to demonstrate their commitment by contributing to the overall cost of the program in cash or in services.

Bank-Wide Funding Mechanisms for Capacity Development Programs

The Bank's Trust Funds Department supports selected programs within the Bank that are intended to build capacity. A few examples include the Africa Capacity Building Foundation, the Bank-Netherlands Partnership Program, and the Policy and Human Resource Development Fund. In addition, the Development Grant Facility (DGF) is the Bank's central mechanism for pro-

viding direct grant support for innovative programs that cannot be supported through traditional Bank instruments. In fiscal 2006 DGF dispensed about \$172 million to support 56 capacity development programs across networks and regions. DGF also allocates funds to the Institutional Development Fund (IDF), another mechanism to fund quick, upstream capacity development activities linked to the Bank's policy dialogue and country assistance strategies.

Conclusion

Although the Bank's nonlending capacity development work is diverse, it is clear that, with time, it has been evolving toward stronger attention to some of the good practices that have been identified through international reviews and evaluations. These include much more attention to up-front diagnosis and design, stronger results frameworks, and attention to country leadership, ownership, and commitment. Programs such as RAMP and DEC's statistical capacity development work suggest that a client's willingness to pay for part of these services is one important way to ensure commitment and ownership. IFC's and WBI's focus on up-front design and careful monitoring of progress may provide useful models for more results-focused work in the complex field of capacity development. With time, this stronger attention to design could help the Bank to remedy one of the most challenging areas: clearly defining capacity development and finding ways to measure its impact.

Peer Reviewer: Chris Richards, Advisor, International Finance Corporation

About World Bank Institute (WBI): Unleashing the Power of Knowledge to Enable a World Free of Poverty

The World Bank Institute (WBI) helps countries share and apply global and local knowledge to meet development challenges. WBI's capacity development programs are designed to build skills among groups of individuals involved in performing tasks, and also to strengthen the organizations in which they work, and the sociopolitical environment in which they operate.

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