

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee Discussion on 4 November 2008

Special Evaluation Study - Asian Development Bank's Poverty Reduction Technical Assistance Trust Funds: Poverty Reduction Cooperation Fund and Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies

1. The special evaluation study (SES) examined the performance of the management of ADB's poverty reduction technical assistance (TA) trust funds, namely, Poverty Reduction Cooperation Fund (PRF) and Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies (NPRS); and the operations of the TA projects financed by these funds.
2. Overall, the SES found the management and TA operations funded under the NPRS and PRF funds to be successful. The SES undertook country case studies of four developing member countries (DMCs)—Lao People's Democratic Republic (LAO), Republic of the Marshall Islands (RMI), Nepal (NEP), and People's Republic of China (PRC). It conducted a desk study of all ongoing and completed NPRS and PRF TA reports and interviewed relevant stakeholders.
3. Given that NPRS and PRF funds have made a significant contribution to policy and strategy development for poverty reduction in DMCs and their closure would leave a significant gap in ADB's assistance to poverty reduction initiatives, the SES recommends that Management undertake an analysis to determine whether a replacement fund is needed. Management, however, does not see any need for an analysis since the trust funds have met their intended objectives. Instead, Management believes that there is a continuing need to build on further mainstreaming innovations from NPRS and PRF as part of the Strategy 2020 implementation. **Director, OED1** sought clarification from Management on how the gap created by the closure of the NPRS and PRF funds could be addressed.
4. **Deputy Director General, RSDD** explained that the objectives of the trust funds are already mainstreamed to a large extent, with lessons recommended for these funds already incorporated and innovations integrated into many programs and ADB-wide initiatives, like in its support for the climate change initiatives. The gap can be filled by existing trust funds that are catalytic in meeting Strategy 2020's key agenda, including, inclusive growth. ADB recognizes the need to have these funds harmonized and implemented in the most cost-effective way.
5. The SES also notes that the potential of public-private partnership (PPP) for poverty reduction is underutilized. It recommends that ADB management formulates an operational strategy to mobilize private sector partnership for poverty reduction in DMCs. Management does not support formulating a strategy, but found it more useful to develop an action plan on PPP for direct poverty reduction, instead. **Director, OED1** inquired on how and when such action plan will be formulated and implemented by the Management.
6. **Deputy Director General, RSDD** emphasized the substantial progress being reached over time all throughout the ADB on PPP, for instance, through nonsovereign public financing facility. The Private Sector Operations Department (PSOD) and regional departments (RDs) have been working closely together across themes and sectors to align PPP with Strategy 2020. At the recent Board and Management Retreat, the President mentioned that a task force will be established and will plan, among others, to make private sector operations fully congruent with

Strategy 2020. Extensive efforts are also being made by PSOD to make its operations fully developmental.¹

7. **DEC Chair** raised concern on the service fee (5% of the actual trust fund contribution) that ADB charges to donors and used for administration costs. He noted the lack of accounting of the cost to ADB on managing the funds. One **DEC member** noted the lopsided allocation mentioned in the SES, and asked whether the service fees could be booked under ADB's administrative budget, or diverted to resident missions (RMs) to help them implement the projects under the two funds better.²

8. On the issue of proliferation of trust funds, **DEC Chair** also sought clarification on guidelines for ADB in determining minimum size of trust funds that it would accept. **Director, OED1** mentioned that the ADB's Financing Partnership Strategy may help further address the issue of proliferation of trust funds. There is currently no policy in the amount of funds that donors can put in multi-donor funds, but large funds are always encouraged.

9. **DEC members** raised concerns on delays in project implementation under the trust funds, and on time overruns in some projects where there were overoptimistic assumptions about implementation capacity and not enough time allocated for TA implementation.

10. **DEC Chair** inquired about possible options in carefully engaging non-governmental organizations (NGOs). **Director, OED1** noted the need to ensure that NGOs engaged by ADB have good standing and credibility, and have adequate capability to meet ADB requirements.

Conclusions

11. DEC noted the study's finding that TA trust funds, namely PRF and NPRS, have broadly achieved their objectives. Particularly notable was the high success rate in the PRC that resulted in an improvement in the overall performance ratings of the PRF and NPRS operations.

12. DEC was concerned on time overruns in many of the projects under the two funds, the overoptimistic assumption about the implementation capacity, and how the allocation of insufficient time for TA implementation was common.

13. DEC also noted the SES's finding that while NGOs were useful, great care should be exercised in recruiting NGOs of the appropriate variety. One DEC member emphasized the important role of the public sector in poverty reduction while recognizing the role of NGOs.

14. DEC discussed the need for having guidelines on the minimum size of a trust fund to avoid the proliferation of such funds. In this context, the 2008 TA reform paper³ should be implemented with full force.

¹ At a previous DEC meeting, Director General, PSOD mentioned that a private equity funds strategy in the context of capital markets development is being developed.

² OED, in consultation with BPBM, OCO, and CTL provided information to the DEC member that the administration fee charged to trust funds by ADB are not direct and identifiable, but are calculated on actual disbursements. The resulting amount is transferred to ADB's OCR and recognized as income in OCR. Reimbursements of such administration fees are reflected as apportioned cost for administering the trust funds and deducted in arriving at the net budgeted internal administrative expense but are not allocated to any departments.

³ Increasing the Impact of the Asian Development Bank's Technical Assistance Program (DOC.R87-08 issued on 6 May 2008)

15. DEC opined that the management of the trust funds needs to be coordinated, and donors' guidelines and procedures should be harmonized. In this context, the Committee felt that a harmonization of the NPRS and PRF objectives could have been useful. Though the NPRS was planned to be an umbrella facility, it turned out to be a single-donor fund.

16. DEC was of the view that there was no particular need for a fund to replace the PRF and NPRS. However, it noted that the availability of grant trust funds to support poverty reduction strategy in Group C countries, which have access to OCR resources, was particularly useful and that the gap created by the closure of the NRPS and PRF funds should be addressed. Furthermore, DEC noted that Management has already decided to have a working group that would provide recommendations to fully align private sector-related operations with Strategy 2020, and to coordinate work of the RDs and PSOD for private sector development and effective private-public partnerships, among others. There may be merit in that working group's report addressing the issue of private sector involvement in poverty reduction, as well as PPP initiative for this purpose.

Ashok K. Lahiri

Chair, Development Effectiveness Committee