

## **DEVELOPMENT EFFECTIVENESS COMMITTEE**

### **Chair's Summary of the Committee's Discussion on 13 June 2007 of the Country Assistance Program Evaluation for Pakistan and Sector Assistance Program Evaluation for the Road Sector in Pakistan**

#### **Background**

1. The Country Assistance Program Evaluation (CAPE) for Pakistan, which evaluates the Asian Development Bank's (ADB) development assistance to Pakistan during 1985-2006, is the first whole-program study of operations in Pakistan prepared by the Operations Evaluation Department (OED) of ADB. Prior to preparing the CAPE, OED completed a sector assistance program evaluation (SAPE) which reviewed the contribution of ADB to the development of Pakistan's road sector and social sectors. The SAPEs were designed to provide inputs to the Pakistan CAPE. The CAPE was designed to identify lessons learned and make recommendations for the preparation of a new country partnership strategy (CPS) for Pakistan. ADB's Management provided a response that generally agreed with the findings of the CAPE.

#### **Summary of Discussion**

2. The Director General (DG) of OED introduced the two innovative features of the CAPE, namely, (i) the detailed assessment of client perceptions of ADB's performance; and (ii) improvements on the readability of the main text of the CAPE. The CAPE documents the challenging developmental context in Pakistan for the past 20 years, and identifies areas that are under ADB's control, and those in which it could achieve better development results.

3. The development context in Pakistan is very challenging. Overall, ADB's operations in Pakistan were rated as partly successful; energy and transport sectors as successful; and all other sectors as less than successful.

4. DG, OED explained that the CAPE identified possible scenarios in the lending and non-lending sectors as examples in order to identify some possible tradeoffs. The recommendations did not mention specific sectors and recognized that this is a prerogative of the CPS. OED referred to para. 133 of the CAPE which indicated that decisions on which sectors and subsectors to include in a more focused portfolio depend on a number of factors, and "therefore the CAPE should not be prescriptive in the shape of the future program." Similarly, para. 136 stated that there were powerful reasons for ADB's involvement in urban development.

5. The key messages of the CAPE are: (i) should ADB decide to engage in a sector with low historical success rates, there should be clear evidence of how to achieve better development results in the future; and (ii) ADB should provide necessary staffing and resources to achieve the development vision outlined in the CAPE.

6. DG, Central and West Asia Department (CWRD) presented the Management's Response. He agreed with the general thrust of the report and most of the recommendations of the CAPE, but not all. Specifically, he questioned the suggestion that ADB should get out of the urban sector and from the second generation of reforms. These are critical binding constraint areas to growth and prosperity. Some past transactions may not have worked well, but this cannot be the sole indicator for making strategic choices. The type of transaction structure, the

care and attention given to service delivery and the changes needed for that purpose (as opposed to supporting investment item check lists), and the involvement of the private sector (in its various modalities and forms) may explain better why some deals yielded results and others did not. ADB should remain in these areas, but conducting better transactions.

7. The general approach in reshaping ADB's strategy for Pakistan involves stocktaking on lessons learned, checking ADB's track record and skills mix, and identifying the market mix and the market's direction, including the type of business models relevant for specific sectors. The overall strategy includes both the public and the private sectors, and should focus on infrastructure and utilities, agribusiness, urban services and reforms. The selection of sectors is guided by the binding constraints to growth in the country context and client needs and commitment. Interventions on reforms, such as non-banking, banking and public financial resource management, are crucially important in creating conditions for private and public sector investment. These reforms are fundamental to fixing the financial architecture at the level of public administration, as well as working on individual sectors in the provincial and municipal level to deliver the results.

8. DG, CWRD acknowledged the CAPE's recommendation to strengthen ADB's Pakistan Resident Mission (PRM). Steps have been undertaken to send skilled staff from each of the operating divisions there (governance and finance, agriculture, infrastructure, urban services, social sectors) to PRM, to make sure that PRM and ADB Headquarters (HQ) work closely together to deliver new ideas, process projects and implement them effectively. But it would be difficult to achieve efficiency if staff in resident missions (RM) lack authority over areas that can become potential obstacles (such as procurement, safeguards, disbursements). Furthermore, spring cleaning of the Pakistan portfolio (currently 81 projects, mostly non-performing) is a must and is currently under way.

9. The Committee generally endorsed the findings and recommendations of the studies, and noted the responses of the Management. DEC members emphasized the following key points to serve as inputs to the preparation of the new CPS for Pakistan.

10. **Client Assessment of ADB's Performance.** While ADB is viewed as helpful and responsive to the clients' needs, it has been evident that this has led to an overly complex portfolio that is diffused and difficult to manage. As the CAPE mentioned, ADB's portfolio for Pakistan has more projects than the World Bank's, although the latter has more staff resources in the field than ADB. DEC acknowledged that CWRD has initiated the spring cleaning of ADB's portfolio for Pakistan.

11. DEC expressed concern over the finding that ADB is perceived as a "bureaucratic, highly centralized, rules-bound organization". A much deeper set of institutional reforms beyond the Innovation and Efficiency Initiative (IEI) is needed for ADB to be more responsive to its clients.

12. **Priority Sectors.** The Committee reminded the Management that should ADB continue to include urban development, governance and finance sectors in the lending program, which one Director supports, then ADB should better take into account the policy and governing environment in Pakistan before planning any investment. In continuing the program for the urban sector, a DEC member expressed concern on whether the multitranche financing facility (MFF) is an appropriate approach. Urban development remains important in view of increasing urbanization. Governance and finance are difficult and important areas that will require ADB's long-term commitment.

13. DEC expressed concern over the finding that the clients' perception that ADB is not regarded as a prime source of policy advice and intellectual leadership; narrowing the focus on a few sectors may help ADB play a better role. A DEC member suggested that instead of focusing on a few sectors, ADB should try to meet the clients' demands in view of its own capacity. It would also be important to venture into areas that are in line with ADB's overall areas of priority.

14. A DEC member reminded participants that in assessing the road sector operations, the same benchmark should not be applied to the more difficult and populated rural areas. Similarly, social sector projects would yield lower success rates as the benefits are not obvious in the short-run.

15. DEC emphasized the importance of having regional projects for countries to build more linkages between Pakistan and the Central and South Asian countries.

16. Although ADB's operations in Pakistan for particular sectors were rated as successful, there were mixed results on financial sustainability and maintenance issues as significant fiscal costs to the government and inability to maintain their investments were evident. DEC agreed that supporting the government on reforms is a prime concern.

17. The venue for adjudicating competing priorities between ADB and the government is during the country partnership process. It is indeed difficult to manage the 81 projects in the portfolio, and delivering the additional assistance required by clients means an additional cost in order to effectively deliver assistance to other countries. DEC agreed with the CAPE's recommendation to focus on what ADB can actually deliver, rather than overestimating what it can deliver.

18. **Private Sector Operations.** DEC emphasized that the main goal is to strengthen private sector development in Pakistan, which would scale up operations of the Private Sector Operations Department (PSOD). A DEC member noted that a large part of private operations encourages foreign direct investments, and less is done to support the local private sector in Pakistan. It is important to look at the type of investments made in the DMCs, those that are sustainable and not easily mobile.

19. **Capacity building.** DEC supported the use of country systems and ADB's long-term commitment to strengthen country capacity as is necessary. A shift from rolling out projects which deal with particular issues and problems, to building the indigenous capacity to implement the projects will be useful. To facilitate exchange of experiences among DMCs on project implementation by ADB would be quite useful.

20. **Project Processing.** DEC commented that loan approvals should be scheduled in terms of project readiness without undermining Pakistan's due diligence process.

21. **Poverty Reduction.** DEC recommended exploring further the entry points for poverty reduction in Pakistan, and having a more pro-poor approach across the programs. There are plenty of areas to cover, such as the gender dimension.

22. **Stocktaking and Moving Forward.** DEC acknowledged that operating in Pakistan is difficult, and achieving mixed results is unavoidable. DEC agreed that ADB should take stock of the lessons and feed them into the way ADB does business.

23. The CAPE calls for a new approach to doing business, with the analytical work and the strategy in the initial steps. Developing a deeper knowledge of the environment in which ADB is operating, focusing on the results achieved, and delivering a more focused and less complex program, improving business processes, greater delegation of authority and resources to PRM, and adequate consultation with the Government are essential.

24. **Delegation of Authority to PRM.** This has been a consistent issue, requiring committed actions. ADB remains HQ-focused. ADB must have the expertise on the ground to undertake policy dialogue, coordination, cooperation, and to respond quickly to urgent needs of the government. ADB should find a way of substantially shifting both staff and decision-making authority into the field.

25. A more flexible human resources process that allows changing the skills mix more easily and putting the most qualified staff in the field is necessary. ADB's operations are often evaluated by donors based on the efficiency of its field resources, which should be an incentive for ADB to put the most qualified staff in the field.

26. One DEC member suggested that the resident mission staff should be adequately trained in such areas as procurement of consultants and goods as well as in safeguards policies so that they could do these work in addition to their regular implementation work.

27. **Knowledge Management.** DEC noted how Pakistan values ADB's position in the region, which should work to ADB's advantage. ADB must become the knowledge bank in its key areas of strength, by engaging in policy dialogue, where ADB's advice is sought more than that of other institutions.

28. One DEC member suggested that since many CAPEs have already been completed, it may be worth compiling the common issues and key messages, and finding a vehicle to convey them to the key decision makers of ADB in time for the Long-Term Strategic Framework Review. Similarly, it would be useful to extract client perceptions and highlight them in a paper as an additional reference. OED acknowledged this recommendation.

29. OED clarified certain issues. There is an ongoing evaluation of the effectiveness of RMs, and one possible conclusion would be for ADB to look beyond strengthening the capacity of RMs, and to consider a decentralization strategy, which would have major implications on business practices, on a one-size-fits-all approach, delegation of responsibilities, etc. OED emphasized that ADB's public and private sector operations should work together more effectively in building and enabling private sector development, not just to encourage foreign direct investments, but to strengthen the domestic private sector environment in order to increase private sector lending supported by public sector.

30. OED noted Management's inclusion of the urban sector in its strategy for Pakistan. The strategy for succeeding in this sector must take stock of the factors that contributed to past failures.

31. DG, CWRD presented ADB's overall strategy in designing its program for Pakistan. So far, ADB has been successful in refining its strategy and narrowing it down to a few business areas in each division. The strategy is to intervene in fewer areas where ADB can deliver quality services and value-addition given its limited resources.

32. DG, CWRD agreed that addressing weaknesses in sector knowledge is important. Regional trade cooperation is already in the strategy, allowing for continuing efforts in the transport sector, ports, customs harmonization, trucking industry, etc.

33. DG, PSOD informed the DEC that there had been no private sector operations in Pakistan for the last 11 years. There are now twelve transactions in the pipeline, with the full cooperation of PRM. There is currently very strong support across the board from Pakistan, and the biggest criticism is the lack of active participation and presence in the field. PSOD now benefits from a good skills mix in HQ, and clients give high praise for the quality and expertise of PSOD staff.