

## DEVELOPMENT EFFECTIVENESS COMMITTEE

### Chair's Summary of the Committee's Discussion on 15 February 2008

#### I. **Special Evaluation Study on Resident Mission Policy and Related Operations: Delivering Services to Clients**

1. The special evaluation study (SES) assessed the effectiveness of ADB's Resident Mission (RM) Policy of 2000 and related operations in delivering services to clients. The evaluation gathered feedback from both external and internal clients through questionnaire survey; structured interviews; and a review of relevant policy and operations-related documents, and information included in evaluation reports. Given the limited availability of factual performance data, the evaluation findings were substantially based on client perceptions reflected in the questionnaire surveys and structured interviews (see para. 5 and Appendix 1 of the SES).

#### **Summary of Discussions**

2. DEC considered the findings and recommendations of the study, and Management's responses to the recommendations. While appreciating Management's response, OED expressed concern on the factual accuracy of para. 5 of the Management's Response, "The SES implies that in a longer-term perspective, ADB should decentralize fully." OED clarified that the SES recommended preparation of a decentralization strategy in light of the evolving challenges and opportunities and in line with ADB's future strategic directions, taking into account the implications for financial and human resources and business procedures.

3. **Survey methodology.** DEC raised concern on drawing conclusions from the survey results due to the low response rate (38% as reported in Table 1 of the SES). Furthermore, OED explained that the absence of a staff time recording system did not allow them to quantify cost estimates and thus weakened the conclusions regarding the unit cost analysis of RM operations. Evaluation conclusions were primarily based on perception surveys due to limited availability of operational performance data, as mentioned earlier. Any quantitative analysis used only rough cost estimates.

4. **Cost estimates.** Management confirmed that the experience with RMs has been largely positive. Management pointed out that increasing the number of RMs and delegation of operations has cost implications for ADB, which must be carefully considered. Delegation must also be managed, keeping in mind the risk of diffusion of staff expertise, which may result in diseconomies of scale vis-à-vis staff expertise. Management also noted the fixed investments attached to establishing RMs, and that savings on travel cost between headquarters and RMs are offset to some extent by increased local travel cost by RM staff. OED mentioned that, except in SARD and EARD, per unit cost of operations increases with the presence of RMs due to small number of operations (see para. 95 of the main report and para. 15 of Appendix 8).

5. One Board member recommended that cost estimation should consider costs not only to ADB, but to DMCs as well. In terms of achieving efficiency, DMCs may incur opportunity cost if there are no RMs. The presence of RMs in DMCs improves efficiency and communication, and implementation of projects, which leads to reduced commitment fees and costs attached to implementation delays and enhances the implementation of the Paris agenda.

6. OED explained that the SES did not investigate deeply into the cost analysis of decentralization. Emphasis of the study was on operations, rather than human resources and budget.

7. **Comparison with other bilateral aid agencies.** As comparators, DEC agreed on using bilateral aid agencies as well. However, given the differences between ADB operations and those of bilateral aid agencies, DEC advised caution in such comparison. While drawing appropriate lessons from such comparisons is a priority, comparisons with other MDBs are more relevant.

8. **Volume eligibility criteria.** DEC agreed that the number of projects/loans in DMCs should be a factor in considering the presence of RMs in DMCs.

9. **ADB's regional presence.** DEC noted that presence of ADB does not necessarily mean physical presence of an RM. Extended missions may fulfill the necessity of an ADB's presence in some DMCs.

10. **Decentralization.** DEC suggested that Management distinguish the areas which should be delegated to the RMs and those that should remain at headquarters. DEC Chair expressed concern that further decentralization may lead to higher costs which would be borne by DMCs through higher OCR interest rates if no other reasons are available.

11. Management noted that decentralization efforts should maintain a balance between costs and benefits. Management also emphasized that ADB's geographical location (being based in the region) may be a key consideration in achieving optimum combination of the roles of RMs and headquarters.

12. **Knowledge Transfer.** DEC noted that although local staffs in RMs are knowledgeable of the local conditions, this advantage is offset by lesser knowledge transfer of international best practices brought by headquarters staff. DEC noted that any conclusion drawn on knowledge transfer has been based on perception, rather than quantifiable measure of knowledge transferred, such as citations in publications.

13. **Lessons from external studies.** DEC noted some lessons learned from studies of other institutions. World Bank found decentralization to be not necessarily cost-neutral, as one size does not fit all regions.

14. The Inter-American Development Bank (IADB) found a downside in decentralization, where there may be deskilling of sector specialists who spend time on project administration and procurement rather than technical work.

15. It is also noteworthy that decentralization, in its own right, is often a political decision.

## **Conclusions**

16. DEC Chair drew the following conclusions from the discussion:

- (i) DEC found the SES to corroborate that the 2000 Policy is highly relevant, and RMs were effective in service delivery. The RMs had the requisite level of efficiency which could be improved further. The 2000 policy could be reviewed on

its sustainability, but new strategy for RM may be needed depending on the result of the review.

- (ii) DEC noted that, although the high non-response rate created some discomfort about the firmness of the conclusions, yet prima facie, the conclusions seem to be robust.
- (iii) DEC noted the absence of cost estimates both in the SES and the Management response. Although expansion of the RM network and strengthening the RMs will improve quality, timeliness and responsiveness of ADB to client needs, it is critical to have cost estimates to identify how much it will increase ADB's expenditure.
- (iv) DEC encouraged OED to draw the appropriate lessons from other bilateral development partners, but also noted that there may be limits to which ADB should be compared with bilateral aid donors.
- (v) To what extent RMs should be extended, and whether there should be a RM in every DMC needs further clarification, not only on the basis of the costs involved for the Bank but also based on the reduced opportunity costs for the DMCs as well as with regard to the harmonization gains in implementing the Paris agenda.
- (vi) The question about operational volume eligibility criterion still remains relevant and can be resolved only after better estimates of the related cost of RM operations are available.

## II. Special Evaluation Study of the Asian Development Fund VIII and IX Operations

17. Under the special evaluation study (SES) of Asian Development Fund (ADF) VIII and IX operations for the period 2001-2008, assessments were made of ADF's efforts to target the poor; the Performance-Based Allocation Policy; adding a governance dimension to operations; the grant mechanism; and progress with aid coordination, cofinancing, and harmonization.

### Summary of Discussions

18. The Committee discussed key areas of the study and considered Management's response to OED's recommendations.

19. DEC noted the study's observation that only a small proportion of the poor in the Asia-Pacific region is targeted by ADF. However, some DEC members emphasized that ADF has specific goals that are not directed towards the entire poor population of the region. Some middle income countries have better access to commercial loans and the poor population of these countries is not covered by ADF operations. Some other DEC members believed that ADB should look for ways to support the poor in these countries.

20. **Performance-Based Allocation (PBA).** Management clarified that ceilings/allocations of assistance determined on the basis of PBA are disclosed to the country through the Board, but not put out in the public domain.

21. DEC noted the study's findings that ADB and World Bank (WB) have different weights and formulas; and that the ratings and weights of indicators in the ADF and IDA formulae lead to different shares in ADF and IDA funds. The study also found that ADB's formula favors smaller population, which leads to greater allocation on a per capita basis to smaller countries.

22. Management noted that while other MDBs have been using the PBA system for a long time, ADB's experience was limited to a shorter period. DEC noted donors' emphasis on the need for a harmonized procedure between ADB and other MDBs.
23. DEC noted OED's recommendation that the issues on governance may be addressed through both program and project lending. However, DEC members cautioned that addressing the governance issue through program lending would only be effective if the country has sufficient capacity.
24. **Loans versus Grants.** One Board member opined that while grants do not solve debt distress, grants do not compound the distress. One DEC member observed that providing loans to debt-distressed countries is tantamount to giving grants, since the likelihood of loan repayments is low.
25. DEC noted the SES's findings that grants lead to lower volume of assistance to a country, as compared to when loans are provided. The study suggested higher concessionality or debt forgiveness as an alternative to grants.
26. **Efficiency of Administration of ADF funds.** DEC noted the study's findings that ADF operations are relatively inefficient compared to OCR operations. The study stated that implementation of ADF IX has been more efficient than ADF VIII.
27. DEC expressed concern on the capacity of ADF's costing methods, and suggested that ADB finds ways to estimate total cost to OCR borrowers arising from ADF operations.
28. **Goal Congestion.** DEC believed that goal congestion is a serious issue in ADF operations. Management agreed and explained that ADB is trying to be selective and more focused on goals to reduce congestion. The ongoing review of the Long-Term Strategic Framework hopes to address this. OED added that ADF IX addresses this issue by delegating specific goals to development partners specializing in those specific fields.
29. **Staff Transfers.** DEC expressed concern about the impact of staff transfers on project implementation and sought assurance from Management that this would not happen in the future. Management, however, admitted that while assurance may not be given, all efforts would be made to ensure that at least mission leaders stay with the projects during the first year of implementation.
30. Management stated that with limited resources, staff need to be transferred to wherever they may be needed. Further, avoiding staff transfers would deny staff with opportunities for job promotion.
31. **Data Classification.** DEC viewed that changes in classification make comparison between operations over time difficult. DEC suggested that when the classification system changes, the old data should be re-classified according to the new system to facilitate comparisons over time.

## Conclusions

32. In conclusion,

- (i) DEC noted that ADF currently covers only a small proportion (about 18%) of the 620 million poor in Asia-Pacific region. However, many of the countries not covered by ADF have been fighting poverty using other resources. DEC noted that for a resolute assault on poverty in Asia and the Pacific, much more resources, as well as effective ways of utilizing such resources would be needed in the Asia-Pacific region. ADB may have a role to play in this regard.
- (ii) ADF, particularly the newly introduced grant framework, could be an effective way of fighting poverty without adding to the problem of debt distress in the highly-indebted poor countries.
- (iii) There is a problem of goal congestion as noted in the SES. Management assured DEC that the LTSF under preparation will address this issue.
- (iv) DEC noted the recommendation of SES on need for selectivity of sectors in ADF operations.
- (v) SES clarified the comparability problem over time, because of frequent changes in data classification. DEC wanted Management to re-classify the old data whenever a new classification system is introduced.
- (vi) DEC noted that apart from the direct transfer of OCR net income for funding ADF, there was some cross-subsidization of ADF operations by OCR operations because of the relatively more staff time per dollar of loan devoted to ADF operations.
- (vii) SES raised questions on the PBA, and the appropriate weights to be attached to governance. DEC noted that the rating and weighting of indicators for ADF and IDA formulas are different. DEC encouraged staff to carry out appropriate analysis of PBA system and weights attached to governance.

**Ashok K. Lahiri**  
Chair, DEC