

**BOARD OF DIRECTORS  
DEVELOPMENT EFFECTIVENESS COMMITTEE**

**CHAIR'S SUMMARY OF THE COMMITTEE DISCUSSION ON 17 MAY 2006**

**Country Assistance Program Evaluation (CAPE) for Lao People's Democratic Republic**

1. The Development Effectiveness Committee (DEC) discussed the CAPE for Lao PDR. Being the first CAPE for Lao PDR, the study by the Operations Evaluation Department (OED) had comprehensively assessed the performance of ADB's country operational strategies and assistance programs to Lao PDR from as far back as 1986, the year the country initiated its transition to a market oriented economy. The DEC's objective was to feed its views directly to Management and the Country Team as the latter started the process of formulating the new country strategy and program (CSP) for Lao PDR, and to inform the full Board of its conclusions on a timely basis. An informal Board seminar for the new CSP was scheduled shortly after the DEC meeting and formal Board consideration of the CSP was planned in October 2006.
2. At the meeting's onset, the Chair reminded the committee that a supplementary assessment that should be considered integral to the discussion of the CAPE was the previously completed Sector Assistance Program Evaluation (SAPE) for the Agriculture and Natural Resources (ANR) Sector in Lao PDR, a sector that continued to be of strategic importance in ADB assistance to Lao PDR.
3. The DEC generally considered that the CAPE for Lao PDR set a high standard in methodology, thoroughness of analysis and construction of conclusions, and that it might be a good model to follow in the application of the recently completed guidelines for CAPE preparation. The incorporation in the evaluation framework of basic elements of the Common Performance Assessment (COMPAS) of multilateral development banks (MDBs) was commended, as was the participatory process used in the CAPE preparation. At the same time, DEC members suggested that future CAPEs might consider a more concise format.
4. The DEC acknowledged that the Management Response to the CAPE, which was circulated to the committee prior to the meeting, added significant value to the process because it clearly indicated how Management intended to respond to each of the CAPE's recommendations. The DEC noted that Management had generally agreed with all of the seven recommendations of the CAPE and that these were to be key considerations in formulating the new CSP: (i) address the problems of limited Government absorptive capacity; (ii) focus on a smaller number of sectors; (iii) strengthen harmonization and partnerships with other development partners; (iv) improve the results achieved through program lending; (v) strengthen sector strategies with a focus on governance, anticorruption, and the enabling environment for private sector development; (vi) improve management of the technical assistance (TA) program; and (vii) strengthen ADB's Lao PDR resident mission (LRM).
5. Referring to the highly participatory CAPE process undertaken, Director General, OED highlighted the strategic interaction with Government that had been achieved through the process. As a result, the CAPE incorporated the specification by the government of Lao PDR of six key areas in which it believed ADB needed to improve: (i) more effective project monitoring by increasing the role of LRM; (ii) focusing on a smaller number of sectors; (iii) using sector coordinated approaches; (iv) increased harmonization and collective policy dialogue among

donors; (v) improving capacity development assistance; and (vi) more focus on sustainability. The DEC noted the close congruence of these Government-perceived areas for ADB improvement with the CAPE's independent recommendations. The DEC expected the new CSP to address these concerns and recommendations up front.

6. In elaborating on the CAPE's recommendations, OED staff explained that the overall context was the considerable variation of ADB performance evaluated across sectors and that the two most important lessons from the CAPE were: (i) continuity of assistance was the key to achieving development effectiveness, and (ii) diffused investments failed to achieve development effectiveness.

7. Director General of the newly realigned Southeast Asia Department (SERD), which now included responsibility for the Mekong sub-region, reiterated Management's appreciation of the value and timeliness of the CAPE's participatory process and product toward preparation of the new CSP for Lao PDR and Management's general agreement with all of the seven recommendations. He emphasized that the new CSP will be on solid ground because it will be fully aligned both to the CAPE's findings and to Government's 6<sup>th</sup> Five-Year Socio-Economic Development Plan. ADB was also aligning its assistance strategy and program with those of its development partners. He explained that, in this overall context, hard choices will have to be made in the CSP, particularly in sector selectivity under a significantly decreased ADF allocation for Lao PDR. The DEC endorsed the importance of such hard choices.

8. On assessments in the CAPE as these pointed to key issues to be addressed in the CSP, various DEC members emphasized that:

- (i) how the CSP should approach and incorporate support for governance as a key result area remained a major strategic concern, e.g. how could ADB leverage its support for governance in a sector in which its project investment role was very limited. It was noted that the CAPE had rated the overall performance of ADB operations in improving governance and MfDR capacity to date as only partly satisfactory;
- (ii) responding to a major concern expressed by SERD management regarding an anticipated reduction in ADF allocation for the future Lao PDR program, the core issue would be not in the reduction but in how ADB could substantially assist in strengthening Government absorptive capacity, both financial and institutional;
- (iii) in the specific case of Lao PDR, an underlying strategic issue was how to increase citizen participation in decision making and broaden economic and social opportunities for all. The CSP should set out the incentives for such moves;
- (iv) considering the weak capacity of institutions, harmonization was important not just among the MDBs but also with other significant development partners such as bilateral agencies; and
- (v) ADB had a responsibility to learn why many program loan conditions had not been met in the past and to improve the design and implementation of program lending if this assistance modality is to be used in the future. It was observed that two major reasons for some of the conditions not being met were weak ownership and overambitious and sometimes unrealistic targets.

9. Country Director, LRM, who was to lead the CSP preparation, reaffirmed the operational value and usefulness of the CAPE as well as the SAPE for the ANR sector in positioning the CSP, which would move from a project to a sector approach. The CSP would also benefit significantly from the joint portfolio effectiveness review with the World Bank and from the work of eight thematic groups recently formed for donors by Government. He was encouraged that Government's commitment to the envisioned development thrusts, as incorporated in its Five-year Plan,, had significantly increased and recently been translated into concrete initiatives, including in the difficult areas of governance, corruption, and people's participation. He also reported that Government had formally bought into the Paris Declaration.

10. The DEC Chair informed SERD management of certain recommendations the DEC had made for the Uzbekistan and Indonesia CSPs at previous DEC meetings, which it also recommended should apply to other new CSPs, namely that consideration be given to including in the CSP:

- a section explaining specifically how the strategy had been translated into an operational program, so that the linkage was clear;
- a section explaining how lessons learned from past portfolio performance were taken into account in the CSP; and
- a section documenting the CAPE's recommendations and the DEC's recommendations on these, and explaining how the CAPE and DEC recommendations were taken into account in the CSP.

11. In conclusion, the DEC generally endorsed the seven recommendations of the CAPE toward the formulation and implementation of the next CSP for Lao PDR. The committee emphasized that in addressing these recommendations, the CSP was expected to be based on further in-depth analysis and include detailed strategies and programs particularly in the areas of assisting Government to improve absorptive capacity and governance, and grounded in a results and incentives framework.

12. **Nam Leuk Hydropower Project.** Referring to a recent inquiry sent by International Rivers Network (IRN) to Director General, OED to follow up on outstanding actions on the recommendations made in OED's performance evaluation report, the DEC took the occasion to discuss such information from SERD. SERD management reported that earlier in the month, Government had agreed to use uncommitted loan funds toward the required remedial actions that remained outstanding. The DEC recommended that the next step was for management to formally respond to the letter from IRN, elaborating the update provided to the committee in greater detail. The DEC agreed with SERD management that here was a good example of how, even after a loan was closed, ADB could continue to pay attention to important follow-up actions required for a client, including any necessary mitigation measures, based on the proactive cooperation and support of a development partner on the ground, in this case IRN. DEC members accepted SERD's proposition that ADB's responsibilities in regard to a loan project were not open ended and that local governments, communities and citizens also carried responsibilities for sustaining both project benefits and mitigating measures. However, DEC members stressed that ADB bears ongoing responsibility for delivering against the project design approved by the Board and its policies and procedures. DEC drew special attention to the recommendation in the Nam Leuk project evaluation report that ADB build modest contingency funding into such projects to provide the ability to take prompt remedial action where warranted.

**Performance Evaluation Report on the Financial Sector Program (Loan 1601-KOR) and Institutional Strengthening of the Financial Sector Project (Loan 1602-KOR) to the Republic of Korea – A Summary of Key Issues and Lessons**

13. In formulating its meeting program for the year, the DEC had made a conscious decision to focus only on broader evaluations at the policy, strategy, country, sector, and thematic levels, and not to consider the performance evaluations of individual projects or programs (PPERs). However, the committee decided to make an exception in the case of the financial sector program and related TA loans to the Republic of Korea (KOR) because of the exceptional size of the program loan (\$4 billion, ADB's largest loan ever), the exceptional circumstance prompting the loans (the Asian financial and economic crisis), and the record time in which the loans were processed.

14. Instead of considering the PPER comprehensively, the DEC focused its attention on only those key issues and lessons arising from the loans to KOR that could be of relevance to a future assistance intervention of a similarly exceptional nature. OED's evaluation had concluded that while the emergency mega-loan to KOR did not crowd out OCR lending to other clients in the period following the crisis, it could be argued that the increase in quick-disbursing lending to clients affected by the 1997 Asian crisis resulted in a surcharge on all OCR borrowers. However, all in all, the assistance to KOR was evaluated as successful to highly successful, mainly due to the very strong ownership by KOR. On ADB's part, the right kind of assistance had been provided at the right time, and with exemplary efficiency.

15. The DEC endorsed the overall conclusions and lessons from the PPER. To most DEC members, the key lesson to be learned toward future crisis assistance was that during crisis situations, effective coordination among the involved multilateral financial institutions (MFIs) and sharing of information in a transparent manner are needed to ensure that assistance programs are comprehensive and consistent and do not overlap or work at cross purposes. This did not happen during the Asian financial and economic crisis and, absent the overall ownership by KOR, could have led to problems. The DEC encouraged OED to prepare a "two pager" on the major lessons and circulate this to the regional departments to ensure that the lessons are remembered. The brief could also be disseminated to other MFIs with the goal of agreeing on a "coordination framework", which ADB could take the lead in putting together.

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