

DEVELOPMENT EFFECTIVENESS COMMITTEE OF THE BOARD

CHAIR'S SUMMARY OF THE COMMITTEE DISCUSSION ON 21 SEPTEMBER 2007

I. COUNTRY ASSISTANCE PROGRAM EVALUATION (CAPE) FOR SRI LANKA

1. The Chair emphasized the CAPE's relevance to the preparation of the new Country Partnership Strategy (CPS) for Sri Lanka, which is expected to indicate how the recommendations accepted by the Management have been incorporated.

2. The Committee discussion focused on the five key recommendations, and tackled the overall relevance and effectiveness of the current country strategy.

3. OED explained that the current strategy was relevant during the time of its approval, when ADB was dealing with the post-conflict situation. It is now less relevant due to renewed conflict situation, and the changes in Government policies made the thrusts of the current strategy less feasible.

4. The Chair referred to ADB's thrust on privatization of commercial SOEs and noted that ADB changed its strategy to adapt to the changing environment. The Chair inquired on what should be changed in the current country strategy to make it more relevant.

5. OED emphasized that ADB is still aiming for difficult policy changes which are no longer feasible, given its ongoing programs and the thrust of its policy contents. The CAPE recommends that ADB identifies new ways of undertaking reforms. OED added the generic problem wherein ongoing country programs are largely determined by pre-strategy periods: the strategy may be changed, but ongoing projects are difficult to change. ADB should revisit its ongoing programs for post-conflict, privatization, etc., to update its strategy.

6. DEC inquired about CAPE's recommendation for ADB to temporarily suspend or change the scope of ongoing projects when security risks arise and outweigh expected benefits. DEC opined that in such a very volatile political environment and when there are clear signs of resistance, Management should empower operations Directors to be flexible in modifying the nature and level of planned assistance and be responsive to the ground condition. DEC pointed out that ADB should engage the Government in a dialogue, and obtain Government's commitment to have more consistencies in program implementation.

7. DEC requested Management to clarify: (i) why there was no attempt to adjust the current CSP; (ii) what are the specific actions and timeline in addressing the deterrents that affect the performance of ADB assistance (para. 38); (iii) since policy-based assistance is linked to achievement of milestones, how were the funds released if the progress on achieving the milestones were not fully satisfactory; and (iv) the staff turnover was a major problem.

8. Management (represented by Director General, SARD; Country Director, SLRM and Director, SPMS) generally agreed with the overall rating of "partly successful" as it would be difficult to obtain a better rating under the challenging circumstances of resurging civil conflict, devastating natural disasters and substantial changes in government policies. While every effort must be made to achieve efficient and sustainable operation, ADB as a trusted development

partner has taken its deliberate choice to extend assistance to a conflict-sensitive environment. Therefore, some degree of higher cost and uncertain outcomes are expected. Management also stressed that ongoing programs were changed to adapt to the changing circumstances to the extent possible. Where not, annual spring cleaning exercises would try to restructure or cancel projects that are not moving.

9. Presently, SARD is rigorously implementing MfDR initiatives to cover entire operational cycle (country-base, sector-base and project-base). Management assured that there is close monitoring of country operations, and necessary adjustments in the country strategy are reflected in the strategy update. The current strategy has many elements that remain applicable and valid under the current situation since the operations were designed to be flexible and adaptive, even on situations that would call for suspension of operations.

10. OED appreciated Management's general agreement with the recommendation to review ADB's development assistance to conflict-affected areas in the North and East, but noted its silence on some specific recommendations, including the need to fill the vacancy of a conflict advisor in SLRM.

11. DEC inquired on the usefulness of the Conflict Advisor position, and on a performance evaluation of the former Conflict Advisor. DEC also noted that the CAPE should be transparent on the issue of fungibility of funds with respect to conflict-affected countries.

12. OED explained that the scope of the evaluation did not include a performance evaluation of the Conflict Advisor. The dynamics of the conflict, evolving situations, and resurgence of conflicts would necessitate a Conflict Advisor. The current practice of having the project managers providing advices on conflict-related issues is contrary to the non-partisan nature of conflict advisory. On the issue of fungibility of funds, OED emphasized that, as a matter of policy, ADB does not earmark the use of the counterpart funds.

13. Management reminded that the position of Conflict Advisor was not a regular ADB position but that DFID has seconded a DFID staff for three years to SLRM. The secondee has since left, and is expected to be replaced through a multi-donor funded program. It is expected that this position also assist other development partners, and financing arrangements are expected to be finalized by the end of the year. The position had been very essential in allowing SLRM to respond appropriately to conditions of conflict. Recruitment for the position is likely to start in early 2008.

14. OED acknowledged Management's agreement in achieving sector selectivity, but disagreed with its position to continue supporting power sector and policy-based lending. Management should define the sectors it would disengage from to achieve greater selectivity. Since ADB's success in a sector is vital in sector selectivity, ADB should demonstrate that the lessons learned are taken into account and ascertain that better results can be achieved in the future, should it opt to engage on areas in which it was not quite successful in the past.

15. The CAPE is not suggesting that ADB ceases its lending for particular sectors, but recommends that ADB continue its engagement in certain sectors through TAs and policy dialogue, especially if the conditions are right for such interventions. In case of continuous lending, ADB should review the viability of its lending operations in conditions of conflict and changing government policies.

16. Some DEC members expressed support for continued engagement in the agriculture and power sectors and policy-based programs, and in necessary projects or programs despite any ongoing conflict situation. DEC noted the drop in the trend of ADB's portfolio performance in Sri Lanka for the last decade, and that the only two sectors that were rated "successful" account for only 25% of the portfolio.

17. DEC noted the findings that innovative strategy to overcome the stalemate is necessary when there is strong opposition by some trade unions and resistance to independent tariff setting. Such conflict condition would prevent full cost-recovery and make ADB assistance non-sustainable in the long-run. Further lending will only saddle the country with additional debt and weaken incentive for reforms.

18. DEC recommended that addressing ADB's quite weak performance in some sectors (e.g. agriculture) should be in coherence with the LTSF review. There was apprehension on ADB's continued engagement in policy-based lending, particularly in a situation where conditions for reforms cannot be met. It was advised that Management observe caution in formulating programs for policy-based lending, including the conditionalities. There was a general agreement with the CAPE's findings for ADB to review its development assistance in sectors that are less successful.

19. DEC agreed that ADB's continued engagement in the power and policy-based sectors would require proper justifications, incorporating the lessons learned and how project design and implementation can be improved. One DEC member emphasized that politicization of the public service and the fungibility of funding are also factors for consideration.

20. DEC emphasized that ADB's total disengagement is not an option, since it would mean similar application for other conflict-affected DMCs. The Chair further inquired whether the portfolio success rate has actually decreased or not, given the figures presented.

21. ADB should have the flexibility to change the nature of its engagement and provide more refined and intelligent response when there is strong resistance and when conditions are not right for specific policy-based reforms. One DEC member mentioned that besides the CAPE, ADB's overall strategic positioning, clients' demands, and so on should also be considered. If necessary conditions are present and the Government has been successful in the sector, discontinued assistance to policy-based reforms is not appropriate.

22. The Chair inquired on the conditionalities that were not met and delayed the release of tranches, including the undisbursed amounts. Since tranche conditionalities are extremely critical to the outcome of projects, OED should have examined if conditionalities were drawn up appropriately. The CAPE could have also provided an analysis of how many times waivers were granted, how many times extra time was given for the conditionalities to be met, and how conditionalities were met.

23. Management assured that the new CPS will be more focused and selective. Although agriculture and agribusiness remain key sectors, the current policy environment cannot support assistance to these sectors. A new loan of \$80 million for the education sector will be approved by end of 2007, and no new lending is planned until 2010 to enable both the consolidation and the evaluation of overall donor assistance to the education sector upon request of the government. The assistance to the power sector has shown adequate success and development impact, and the new CPS will still cover this area, employing a very cautious

approach. The new CPS will pursue policy reform agenda in all sectors, and ADB will continue to engage in sufficient policy dialogue.

24. OED noted DEC's preference to include an analysis on the conditionalities in future evaluations. Similar analysis is being made for individual program evaluations (Project Performance Evaluation Reports).

25. OED noted Management's silence on the CAPE's recommendation to review ADB's resources, skills base and staff configuration to ensure effective policy dialogue.

26. DEC inquired on whether the staff resource allocation for Sri Lanka had strong impact on ADB's performance in the country. A review of the resources allocation should be undertaken in line with budget preparation, considering the total resource envelope to balance the allocation between the HQ and the RM.

27. Management noted that SLRM's current skills base was adequate and staff have a mature and sound understanding of the economic and political condition of Sri Lanka. Additional staff will provide support to policy dialogue, and to the full delegation of the disbursement function to SLRM.

28. The Chair inquired whether the CAPE's recommendation for a results-based monitoring and development evaluation is OED's own recommendation or a request by Sri Lanka government. Both DEC and Management agreed to the CAPE's recommendation.

29. OED clarified that the Government requested support from OED for results-based monitoring evaluation. OED had been working with the Ministry of Plan Implementation to strengthen its monitoring and evaluation capacity, and the Ministry requested OED during the course of the CAPE preparation to renew and extend the assistance. OED has responded positively, noting that such request should go through the standard business process, as the assistance should be part of the country program.

30. Although Management agrees in principle that ADB should strengthen the capacity of SLRM, it noted that it requires an ADB-wide response, to be delivered by the ongoing review of the Resident Missions (RM) policy by SPD.

31. DEC expressed apprehension on the sufficiency of resources allocated to RMs to do in-depth analytical work, especially in such a volatile environment like Sri Lanka. Drawing appropriate programs and responses call for adequate understanding of the dynamics at the ground level, requiring field staffs with adequate skills and maturity.¹ Further, DMCs view RMs to have both the authority to respond to queries/needs, whether the projects are administered from the RM or from the HQ.

32. DEC inquired whether there is anything in the existing framework that can address the issue of delegating to SLRM the project monitoring and policy dialogue. The Chair noted DEC's view that strengthening the capacity of SLRM should be addressed in the context of the LTSP review, taking into account the resource envelope problem.

33. Management emphasized that the ongoing review of the Resident Mission Policy will adequately address ADB-wide generic issues on RMs. SPD and BPMSD are now in the final

¹ See Management's comments in paragraph 29. SLRM staffs fully understand the dynamics at ground level.

stage of assessment; an informal Board seminar will be scheduled shortly. Generally, the objective is to look at ways on how the RMs can be strengthened in terms of quality, sector expertise, expertise in procurement and disbursement, among others. Management noted some constraints, like the buoyancy of the regional labor market, which may bring challenges in the area of recruitment.

34. To conclude, the Chair summarized the main points of the discussion as follows, and noted that the CAPE's findings and DEC's views are expected to be incorporated in the preparation of the next CPS.

- (i) Refocusing of ADB's engagement. DEC has noted Management's position for greater selectivity, but is not recommending disengagement from certain sectors.
- (ii) Assistance in Post-conflict situation. DEC views that disengagement is not an option, but sensitivity is required on problems that arise in this situation.
- (iii) Strengthening SLRM's capacity. DEC expects the result of the RM policy review at the soonest time possible.

II. SPECIAL EVALUATION STUDY (SES) ON GLOBAL ENVIRONMENT FACILITY

35. The SES is a two-part study: (i) joint evaluation participated by ADB and all other donors of the Global Environment Facility (GEF); and (ii) a real-time evaluation of completed and ongoing projects. The SES provides recommendations on the processing of the GEF-funded projects, and derives eleven (11) general lessons from evaluation of both ADB's GEF-funded and other environment projects.

36. Management's response generally agrees with the lessons presented in the SES, of which several have already been incorporated into the design of specific ongoing projects. Management does not find the SES to present compelling evidence that projects with GEF cofinancing suffer from a weak country ownership and inadequate project implementation arrangements. Management also views that delegating oversight of complex projects to RMs would not significantly improve the design or implementation, unless sufficient staff and budget resources were provided for such purposes.

37. DEC inquired whether there are recommendations in the SES that would suggest actionable points for the Management, or just lists of lessons drawn from the evaluation. OED clarified that since the evaluative evidence was limited, there are no recommendations presented for ADB's GEF portfolio, but only lessons drawn from the status of the entire portfolio. DEC noted that the lessons are tentative and recommendations cannot be derived at this stage.

38. DEC also inquired on the choice of the three sample projects (one Sri Lanka, one Bangladesh, and one RETA). DEC opined that the sample size (3 out of 13) may have limited the evaluation to provide compelling evidence, as viewed by the Management. The sample size could have included more investment projects, and could have drawn more useful lessons and findings. In future assessments, recent projects that had been completed should be used.

39. OED explained that the sample projects were selected on the basis of their maturity (referred to the selection criteria in para. 9), and the selection was discussed with GEF team in ADB, including RSDD. A periodic evaluation will be made in the future.

40. DEC noted that the SES presented detailed problems and Management only provided general response. There was lack of explanation on generic issues that arise due to mismanagement of projects.

41. Management (represented by Acting DG, RSDD and Director, RSES) responded that it followed the established practice in which OED requests Management to confine its responses to recommendations presented on which Management raises some objection or wishes to comment. Further, detailed responses to comments had already been made during the interdepartmental review of the draft evaluation paper, and the SES actually did not present recommendations but rather a list of lessons.

42. DEC noted Management mistakes presented in the findings, implying ADB's inexperience in engaging in GEF operations. The general question is whether ADB should continue with this kind of operation. The deficiencies pointed out warrant serious and urgent resolutions from Management. The complexity of the projects requires appropriate expertise, and from a strategic perspective, ADB should be selective in the areas where it has adequate expertise. One DEC member supported continued operations with GEF, pointing out that only three out of the 13 projects have been evaluated as unsuccessful. Other projects are performing well at their current stage of implementation. Another DEC member recommended that ADB should continue accessing GEF financing in projects that fall under the core sectors of the LTSF.

43. Management clarified that there are no GEF projects per se; instead, there are ADB projects that receive GEF co-financing. Management acknowledged the failures of the Bangladesh project, though it did not attribute these to the fact that the project received GEF co-financing. It noted that the Sri Lanka project is ongoing, and measures to correct the concerns raised in the SES are being undertaken. The projects evaluated suffered from high complexity of design. Management noted that natural resources management projects are inherently complicated in nature, and ADB has learned from the lessons and is working to simplify project designs and to employ phased operations where appropriate. Ongoing projects outside the sample manifest implementation improvements, taking into account the lessons learned from the evaluation.

44. As regards whether ADB should continue GEF-cofinancing operations or not, Management believes that discontinuing for reasons of inadequate staff resources and because there have been a couple of unsuccessful projects, is not justifiable. The decision must be based on the overall strategic thrust of ADB, where cooperation with GEF has a range of benefits. Moreover, the lessons derived from the evaluation are applicable and helpful to the design and implementation of any natural resources management project.

45. DEC inquired on lessons from other MDBs, and on comments by other GEF players, like UNDP and WB, on the performance of ADB's GEF co-financed projects. DEC asked whether GEF would require future assessment by GEF users on the effectiveness of the facility, for instance during the GEF replenishment exercise, and what were the lessons learned by OED from the joint evaluation exercise.

46. Resident Missions' limited capacity also affects GEF operations, necessitating an urgent need to review the RM policy. Adequate skills and expertise on natural resources management and environmental issues are required for GEF co-financed projects—ADB presently has inadequate resources.

47. DEC noted the improved processing scheme for GEF which is partly in response to the joint evaluation, and suggested that OED monitor improvements following the new processing scheme. In the interest of development effectiveness, this process should be reexamined on a regular basis to improve efficiency, using new results-based management tools and better communication.

48. DEC agreed that some GEF co-financed projects suffered from weak country ownership in some cases. OED affirmed the lack of country ownership in the executing agencies; country ownership was only present at the ministerial level. Management believed that the evidence for lack of country ownership was not as compelling in the SRI project as it was in the BAN project.

49. DEC noted the failure of the project processing at the quality-at-entry (QAE) stages in some cases. DEC emphasized the findings that the quality-at-entry seemed to have suffered due to ADB's rush in getting GEF funds.

50. Management explained that most of the projects were already well along in their design even before GEF actively pursued. GEF cofinancing had little influence in the overall project design, and it was not GEF dimensions that brought about failures or design over-complexity. GEF may have added just a layer to the already complex nature of natural resources management projects. Management disagreed that projects were approved prematurely and noted the broader conclusions in the SES than warranted by the facts. Management asserted that there was no rush to get GEF financing, and the QAE did not suffer because of the GEF. The GEF even delayed the project processing, instead of accelerating it.

51. OED agreed that the projects were already in the pipeline even before GEF funding became available. However, ADB could have done more due diligence by having a phased approach: building the institutional capacity first before getting into the technical work. The timing may have been delayed, but some improvements could have been made in the implementation design.

52. OED cited evidence that led to the SES's findings: For the BAN project, OED found out that despite the Ministry's interest, the Forestry Department did not want to push through with the project. This led to the assumption that ADB still went ahead with the project in order to gain access to GEF.

53. DEC inquired on any natural resources management project that is not funded by GEF, which may serve as a comparator to the GEF co-financed projects. A comparative study could be done to determine whether GEF cofinancing affects the quality and execution of projects.

54. Management confirmed that there are natural resources management projects that are not cofinanced by GEF, and a comparison would potentially help assess the effectiveness of GEF participation. However, GEF is only a component of the overall financing scheme and would be unlikely to affect the overall implementability of the project.

55. The Chair drew the following conclusions from the discussion:

- (i) ADB's GEF co-financed natural resources management projects have limited maturity in the implementation cycle, and only three could be evaluated. Thus, the conclusions of the evaluation were tentative.
- (ii) On the issue whether the GEF or the complexity of the sector caused the failures in implementation, Management and OED could not resolve the difference. Most

DEC members recommended that a comparative study be made between natural resources management projects that are co-financed by GEF and those that are not.

- (iii) DEC concluded that given the unsatisfactory performance of the projects evaluated, Management should look at the detailed limitations pointed out in the study, and to avoid future recurrence.
- (iv) On ADB's involvement in natural resources management, DEC opined that it be reviewed under the LTSF.

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