

## **DEVELOPMENT EFFECTIVENESS COMMITTEE (DEC)**

### **Chair's Summary of the Committee's Discussion on 23 May 2007 of the:**

- (i) Country Assistance Program Evaluation for People's Republic of China: Success Drives Demand for More Innovative and Responsive Services**
- (ii) Sector Assistance Program Evaluation of Asian Development Bank Assistance for Roads and Railways in the People's Republic of China**
- (iii) Technical Assistance Performance Report for Selected Technical Assistance Projects in Public Administration (People's Republic of China)**

### **Background**

1. The Operations Evaluation Department (OED) prepared its second Country Assistance Program Evaluation (CAPE) study for the People's Republic of China (PRC),<sup>\*</sup> covering the Asian Development Bank's (ADB) project and program assistance to PRC from 1998 to 2005. The CAPE's findings and recommendations were derived from the review of how past lessons have been used in formulating strategies, and from the assessment of how effective ADB's assistance to PRC has been during the period.

2. The formulation of the CAPE also utilized the findings and recommendations of two OED reports completed earlier: (i) Sector Assistance Program Evaluation of Asian Development Bank Assistance for Roads and Railways in the People's Republic of China; and (ii) Technical Assistance Performance Report for Selected Technical Assistance Projects in Public Administration (People's Republic of China).

3. The three evaluation studies for PRC were conducted in order to identify lessons learned and make recommendations, particularly for the preparation of a new country partnership strategy (CPS) by ADB.

### **Summary of Discussion**

4. Director, OED2 confirmed that the overall assessment rating for the PRC country assistance program is successful. The ADB's program for the PRC is strong in terms of its portfolio quality and the relevance of its strategy and sectoral programs. ADB's partnership with PRC has played a key role in PRC's rapid economic growth, and ADB has consistently added value as a trusted and long-term partner. OED noted how ADB has introduced many new ideas to PRC in the areas of project management systems, project economics, finance, sector governance, and safeguards compliance. Director, OED2 highlighted PRC's influence on ADB's portfolio in terms of size and quality and regional economic activities, and PRC's ability to provide lessons from its own development experiences to other countries.

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<sup>\*</sup> On 4 April 2007, the CAPE and its circulation were approved by Director, OED2, in strict compliance with the *Guidelines to Avoid Conflict of Interest in Independent Evaluations* of the OED. In accordance to these guidelines, Director General, OED, delegated the responsibility of the study's approval to the concerned director, since Director General, OED was involved in ADB's operations in PRC for many years.

5. The CAPE's key message is that success drives demand for more innovative and responsive services. At the current state of its economic development, PRC requires more knowledge, new ideas and international best practices for further economic progress and social welfare. The CAPE notes that ADB could improve its institutional effectiveness, responsiveness to client concerns, private sector operations and regional cooperation.

6. Director, OED2 highlighted the CAPE's issues and recommendations covering ADB-wide issues related to decentralization of resident missions (RM), technical assistance (TA) management, and safeguards policy implementations. Director, OED2 acknowledged that ADB has ongoing work in these areas.

7. Director General, EARD presented the Management's Response, which generally agreed with all the recommendations made in the report. Management found the evaluation analytically sound, well prepared, and timely in providing important inputs to the preparation of the CPS for 2008-2010. Management recognized the expectations from ADB with regard to innovation, knowledge transfer, and client responsiveness, and acknowledged that these will be needed to drive successful assistance programs in the future. Management will ensure that these areas constitute an integral part of ADB's operations for PRC.

8. On the CAPE's recommendations related to delegation of responsibility to RMs, delegation of TAs to the country, and use of country systems, Management advised that EARD would have to be guided, among others, by the ongoing ADB-wide reviews on these issues.

9. The Committee generally endorsed the findings and recommendations of the three evaluation studies. DEC members emphasized the following key points:

10. **Value Addition.** The Committee acknowledged that ADB's operations in PRC added value to the different stages of PRC's economic development and continued support to some sectors over the years which produced tangible development results. However, the CAPE could have mentioned the extent of ADB's influence in designing and implementing ADB's reform agenda in its PRC operations.

11. The Committee suggested that determining PRC's stage of development, whether as a low-income or middle-income country, would help define ADB's value addition to PRC. Although PRC is recognized by ADB as a middle-income economy, a lot of people still live in absolute poverty, and a lot of poor areas still require financial support from ADB, particularly in the social sectors.

12. **Knowledge Transfer.** The Committee agreed that ADB could add value to PRC in the area of knowledge transfer. However, DEC clarified that PRC's need for knowledge transfer includes learning how to use the already available knowledge and technology in drawing lessons and experiences from other countries, and implementing the experiences in its own culture to suit their needs.

13. **Capacity Development/Technical Assistance.** DEC recognized the success of ADB capacity building efforts in PRC. Lacking an overall assessment in the CAPE of ADB's contribution to capacity development in PRC, the Committee suggested that the new CPS align TAs with ADB's strategic priorities by including a strategic framework, and that the accountability framework be clarified. Several issues and recommendations that are long-standing should be addressed and implemented. More pilot-tests of TAs implemented by EAs with strong capacity would be encouraged.

14. A DEC member noted the ongoing debate on whether ADB should be sector-focused or assist on a wider scope, and suggested that ADB should provide assistance based on a country's need. Another DEC member emphasized that ADTAs provided to PRC should primarily target knowledge transfer of international best practices, and not for lending purposes later on.

15. **Institutional Effectiveness.** DEC emphasized the need to change ADB's institutional culture and to mainstream change management more thoroughly. In all CPS, ADB should be aggressive in meeting expected results. Referring to the issues raised in the Eminent Persons Group report, specifically on inclusive growth, would be very useful.

16. ADB could also do more in the area of knowledge management (KM). The Committee acknowledged Management's commitment and efforts in improving the coordination among ADB's KM units. However, clarity should be provided on how these efforts translated into improvements in the capacity of DMCs.

17. A DEC member recommended the minimum engagement of consultants and the employment of more staff linked to KM, in order to maximize retention of knowledge in ADB.

18. **Diversification of Lending Program.** A DEC member requested clarification on the areas in which PRC would like to have a partnership with ADB, including the volume of lending that could be available to PRC. Another DEC member suggested adequate consultation process with PRC and stakeholders in order to identify which areas would require priority and are appropriate. The argument should also be beyond diversification versus focus. Instead, ADB should focus on areas where it could deliver the best results. Another DEC member supported the CAPE's recommendation that ADB can address social and environmental issues through the urban sector, but proposed softening the OCR lending terms, especially since PRC is not an ADF borrower. ADB could provide a window to support PRC, like providing concessional financing for PRC. In addition, PRC has been reluctant to avail of ADB's new products and modalities, hence, ADB should increase sophistication of its partnership with PRC by making PRC more comfortable in using such instruments.

19. **Use of Country Systems for Safeguards Policies.** The Committee asserted that increasing the country's capacity is pertinent to the effective use of country systems. ADB could start applying such an approach in the area of procurement and environment, as efforts on this were already undertaken, and thereafter, draw lessons that would be applied to the other safeguard policies.

20. A DEC member noted that too much emphasis is given to transactions costs, with very limited consideration on the benefits of implementing safeguard systems, and one recommendation was made that the benefits should be valued more in order to have a balanced view of the safeguard systems.

21. **Private Sector Operations.** The Committee expected to have a more comprehensive articulation of ADB's private sector operations in PRC. A joint strategic approach between ADB and PRC on both public and private partnerships should be drawn up. And since private sector participation is quite difficult to predict, a more general strategy may be appropriate rather than detailed plans. Areas of focus may be the infrastructure and financial sectors. ADB should also determine whether it can meet PRC's demands given its available resources.

22. **Regional Cooperation.** The Committee felt that ADB should do more on both regional and subregional cooperation. There are a lot of opportunities for ADB and PRC to work together on this. Regional cooperation activities may also translate into knowledge transfers among participating countries.

23. **Strengthening the Capacity of the PRC Resident Mission.** The Committee acknowledged the need for additional resources in the resident mission. A business model should be established for ADB which clearly defines where ADB wants to go, and what it needs to get there in terms of technical resources and authority to successfully implement the CPS.

24. A DEC member emphasized that PRCM is relevant in raising ADB's partnership with PRC to a higher level. He agreed to build up skills and capacity of PRCM to have a better understanding of PRC for designing programs and strategies. However, this approach can be multifaceted, as it would shift the whole focus of ADB operations. The challenge would be keeping the optimal level of central control.

25. **ADB-PRC Partnership.** The Committee also discussed the broad issues of the ADB-PRC partnership, which is built on very strong country ownership, mutual respect for learning, and the ability of ADB to adapt to PRC's development needs. However, the relationship needs to be re-negotiated a little on both sides, in a manner that would give ADB a bit more room to maneuver—e.g in overall program design, sectors/projects location, geographic elements, and financing issues. There should be more dialogue in order to get the right balance and strike the optimal set of arrangements.

26. A DEC member noted that PRC's financing needs have diminished, but ADB needs to reinvigorate its lending relationship with PRC. PRC will still have financing needs, although not at the traditional level (probably on private sector operations, with greater cost-sharing, etc.). It will be useful to soften the terms for social sector borrowing for PRC.

27. Another DEC member clarified that PRC still has great financing needs. Being a low and middle income country, PRC still has many people living in absolute poverty, and has lots of poor areas needing support from ADB. ADB's continued involvement would be good for PRC and other DMCs as well, as even a small lending level becomes a linkage between PRC and ADB, and may be a knowledge sharing mechanism, which small countries can benefit from.

28. The DEC Chair asked OED how the lessons mentioned would be shared with other DMCs. To the Management, he also referred to the previous DEC recommendations that CPS should include sections explaining: (i) how the strategies are translated into operational programs; (ii) how lessons learned from past portfolio performance are taken into account in the CPS; and (iii) how the CAPE and DEC recommendations are taken into account in the CPS.

29. Lastly, on the overall presentation of the CAPE, DEC members recommended improving OED's report template to avoid presenting repetitive information that only buries the analytical work. The Committee also sought clarification on where to draw the line between the CAPE's recommendations and the role of the Regional Departments in proposing different approaches to the CPS. Further, a DEC member found the recommendations to the PRC government inappropriate, and suggested that recommendations be restricted to ADB. The CAPE, instead, may include recommendations on issues that ADB may raise to PRC.

30. Director, OED2 appreciated the Committee's views which would serve as guidance for developing similar studies in the future. OED is making efforts to improve the presentation of its

reports, taking into consideration good practices of other MDBs and international financial institutions. Further, limitations in the presentation of the PRC CAPE are also the result of the objectives of the study, namely, to make assessments, present issues and offer recommendations, all requiring an enormous amount of information. OED clarified that the CAPE's recommendations are mainly directional inputs towards further specific recommendations and action plans to be developed by regional departments. On value addition, OED acknowledged that the attribution was a bit limited, given the very small ADB operations compared to PRC's total public investment, and mentioned other areas in which ADB operations added value in PRC's development, both through lending and nonlending activities, such as assimilation of knowledge in the transport sector, poverty reduction, public governance and the financial sector. This relates to the CAPE's recommendation on gradual diversification, which intent is not to make ADB's programs spread thinly, but to be more focused in areas where value could be clearly added. On the scope of delegation to PRCM, OED suggested delegation in the areas of policy dialogue, project administration, and knowledge services.

31. On the issue of reforms, OED further clarified that ADB could only add very little to the margin as PRC has already made a lot of reforms. This is the basis for ADB to diversify. Another key point of the CAPE is the recognition that a great deal can still be done for PRC, and ADB needs the expertise to be able to deliver more.

32. Director General, EARD appreciated the recognition of PRC's success as also ADB's programs' success. PRC is a very discerning development partner and its continuous partnership with ADB is based on ADB's ability to add value to PRC's development. ADB's value addition has evolved and adapted well with the different stages of PRC's development. EARD also appreciated the DEC members' guidance on what areas of focus the new CPS should consider. ADB's diversification strategy also aims to address inclusive growth, in order to address income inequality, and also respond to other priorities of both ADB and PRC, such as environmental sustainability, regional cooperation and governance. On the issues of delegation of responsibility to the RM and TA effectiveness, EARD will seek guidance also from the ongoing reviews of these two areas.

33. OED responded that knowledge sharing mechanisms such as workshops, seminars, conferences, and networking with other DMCs and institutions are currently being developed and will be implemented. In addition, regional departments, for example EARD, which is participating in a study on PRC and India experiences, will engage further in disseminating the lessons learned to other DMCs.

34. Director General, PSOD emphasized that PRC continues to be a high priority in PSOD, representing roughly 20% of ADB's private sector operations. PSOD noted the difficulty of planning private sector operations as it is dependent on the sponsors requiring ADB's assistance. PSOD suggested a more proactive stance by ADB at a very early stage of projects to link government priorities. This will naturally entail increased resources. PSOD is continuously networking with the communities of practice in ADB to identify areas of participation. Country Director, PRCM supported these points, and mentioned that there is ongoing work on a joint strategy for private sector development for PRC and ADB, which will be incorporated in the new CPS.

Agus Haryanto  
Chair, Development Effectiveness Committee  
15 June 2007