

## **DEVELOPMENT EFFECTIVENESS COMMITTEE**

### **Chair's Summary of the Committee Discussions on 24 October 2007 of the:**

- (i) Country Assistance Program Evaluation for India**
- (ii) Sector Assistance Program Evaluation for the Transport Sector in India – Focusing on Results**
- (iii) Sector Assistance Program Evaluation for the Energy Sector in India – Building on Success for More Results**
- (iv) Special Evaluation Study on ADB Support to Public Resource Management in India**

### **Background**

1. In introducing the topic, OED stated that this Country Assistance Program Evaluation (CAPE) is the first for India and covers the last 20 years (1986 to 2006), although most of the analysis focused on the last ten years. The main purpose of the study was to provide input to the preparation of Country Partnership Strategy (CPS) for India. India is both a major shareholder and a borrowing member country with substantial influence on ADB's portfolio. ADB's assistance to India in the last 20 years has been about \$17 billion in public sector lending, \$147 million in TA assistance, and \$756 million in ADB's private sector operations. There are three other Sector Assistance Program Evaluation (SAPE) reports supporting this CAPE: one each on transport sector, energy, and public resource management. This CAPE takes into account the findings and recommendations of these three studies. Conforming to the requirements of DEC, this CAPE has also incorporated the views of the Government of India on its partnership with ADB. Management agrees with the CAPE's overall rating of "successful", and concurs with the overall conclusions and key recommendations.

### **Project processing consumes more staff resources than project administration**

2. To a query by a DEC member, OED confirmed that in the case of India, project processing consumes more staff resources than project administration in terms of mission travel. Director General (DG) of the South Asia Department (SARD), indicated that more resources for portfolio management have been allocated in recent years with improved performance.

### **Quality of assistance program has improved over time**

3. One DEC member noted the report's finding that the quality of the assistance program during the latter 10 years of the evaluation period has improved in comparison to the earlier 10 year period. He added that the report observes that ADB has and could continue to scale up its assistance to India in the coming years.

## **Assistance to Rural Development**

4. Observing that there was a recent focus by ADB in rural development in India, one DEC member asked how this would fit into the core of the evolving Long-Term Strategic Framework (LTSF) plan of ADB. He pointed out that the agriculture sector, perhaps with the exception of irrigation infrastructure, was not playing a dominant role in the evolving LTSF. Another DEC member observed that rural and agricultural developments are important to India, and to China, and asked how ordinary capital resources (OCR) funding could be provided to these sectors in a viable way. Another member, observing that while the agriculture sector is important for poverty alleviation and while core priorities under Medium Term Strategy (MTS II) of ADB have already been chosen, asked OED to elaborate their views on this issue. OED responded that MTS II does include irrigation infrastructure as a priority 1 sector. OED added that evaluation results show that agriculture is a challenging sector and if ADB were to continue to be involved in this sector, then it should know how to manage the risks. In addition, quite often, the solution to poverty does not lie in the rural areas, but elsewhere where jobs are being created and thus causing migration. OED further noted that if ADB were to get involved in a sector, it should be there for a long term and there should be strong country commitment. DG, SARD responded that ADB is supporting India's rural development program to make the growth process more inclusive. In 2006, it provided a \$1 billion program loan for strengthening rural cooperatives and improving availability of credit in rural areas. Further, ADB will be providing assistance for strengthening agribusiness and irrigation infrastructure, and improving water resources management in selected states over the 2008-2010 period.

## **Safeguard Policies**

5. One DEC member noted that the report observes that ADB's safeguard policies have created the perverse effect of the client deliberately avoiding ADB projects that have sensitive environmental or re-settlement issues. He further added that the report appeals to India to become more open to dialogue with ADB and the Resident Mission (RM), and to update the Indian safeguard policies. Another DEC member noted that report was pointing out that ADB's safeguard policies were adding to the transaction costs of borrowing from ADB, and stated that if a country is trying to develop its own safeguard policies, how can ADB insist on its own system and not use the country's system of safeguards. Is ADB going to continue to insist on using its own safeguard policies or move towards using the country system, he asked. One DEC member asked OED to clarify what it means by its statement in the report, "in the mean time ADB should harmonize its approach to common safeguard concerns in India." OED responded that three major evaluations completed by early this year had fed into the ongoing safeguard review. The safeguard systems in some countries are strong, while in others they are weak. In China, and in some states of India, these systems are strong. In other countries, it will be a very long time before ADB can use these countries' systems. OED would recommend strengthening these systems progressively in a move towards using them. While many DMCs would encourage ADB using their safeguard system, many NGOs would oppose such a move. DG, SARD added that while this is an ADB-wide issue, SARD is making all efforts to find ways of harmonizing among systems of donors and aligning with the safeguard systems of the institutions whose projects ADB is supporting.

## **Resident Mission**

6. Noting that the report appeals to strengthen the India Resident Mission (INRM) and observing that ADB's largest private sector operation is in India, a DEC member asked if OED

had a specific recommendation to strengthen the private sector activities by the RM. Another DEC member stated that for a country like India with a large pool of highly qualified economists and management specialists, there is no reason why the RM could not be strengthened with more and qualified staff. That would help to improve the dialogue with the Central and State governments. Another member pointed out that without delegation of appropriate level of authority to the RM, it would not be able to function effectively. Yet another DEC member said that as the Management had noted in its response, it is a bank-wide issue and consequently should be addressed in that context and not in isolation. Another DEC member noted that the government has specifically emphasized the need for further decentralization to the INRM with adequate staffing and use of country systems, and changes in business processes for streamlining ADB's operation in India. He added that decisions on these issues should be finalized before the CPS is finalized. OED responded that it has consistently advocated strengthening of resident missions and Management has insisted that it is an ADB-wide issue. OED has found from its studies that when the resident missions are strengthened, the client, its executing agencies, and NGOs all get better service. He added that this strategy would require developing an accountability framework, delegating more authority, and allocating more staff. It would necessitate in ADB changing its business model. This would have major implication for ADB, and thus he cautioned that this should be preceded by a major feasibility study. DG, SARD, while acknowledging that this is an ADB-wide issue, said that in the case of India, they could not wait for the outcome of ADB-wide review of RM policy. He added that SARD has found ways to provide additional support to INRM by delegating more responsibilities by requesting Private Sector Operations Department and the Office of General Counsel to redeploy a professional staff position each to the INRM. The large operation in India makes it possible to justify one of each of these specialized staff to be redeployed. In addition, one position from one of the divisions in SARD also has been reassigned to INRM. Further, the number of National Officers positions has been increased from 11 to 19.

### **Number and quality of ADB staff for India operation**

7. A DEC member, noting that the report points out the need for strengthening the quality and number of staff involved in the India operation, said that both the donor and borrowing countries should form an alliance to push ADB for necessary reform steps. Noting that the report points out that ADB had not fully exploited its potential to assist India, another DEC member asked OED to elaborate more on why this was the case. He asked OED if one of the reasons why perhaps ADB could not give timely support to India was because of lack of adequately qualified experts in ADB. He wanted to know if there were other reasons for not fully exploiting ADB's potential in India. Another DEC member, pointing out that the report makes it clear that there is a need for specialized expertise in economic and sector work to develop new funding methodology for public-private partnership etc., asked if ADB would be able to deliver in this respect. He further asked how long it would take ADB to deliver if it is not already in a ready state to deliver such services. Another DEC member noted that the government expects ADB's operations in India to expand to \$4 billion per year and asked if ADB would be able to allocate the necessary staff, technical assistance (TA) funds and other resources to rise up to expectation. DG, SARD responded that it is crucial to help the Government improve the capacity to promote public-private partnership (PPP), and so, ADB has provided large scale technical assistance to set up PPP cells in 14 states. These cells are in charge of identifying and carrying out preliminary assessment of PPP projects. ADB's support to PPP is expected to be scaled up.

## **Coordination between Public and Private Sector Operations of ADB**

8. Noting the report's observation that there is potential for improving the coordination between ADB's public and private sector operations, and pointing out that there is an ADB proposal to merge the private sector operations within the public sector operations, a DEC member asked what OED thought of the plan. Another DEC member pointed out that the report states that there should be synergy between ADB's public and private sector operations, and asked what ADB is doing about it. Another DEC member, while agreeing with this view, observed that the coordination between ADB's public and private sector operations has significantly improved over the last couple of years. OED responded that it had done an evaluation report on this issue which was discussed by DEC in June. That study proposed two or three modes for consideration. Responding to the specific question about merging PSOD with Public Sector Departments, DG, OED said that the implications for such a change would have to be considered. He noted that since staff in the public sector are used to designing projects that are backed by government guarantee, they may not be able to fully appreciate the risks associated with private sector lending. DG, SARD responded that SARD is actively pursuing projects in which both the public and private sector work together to achieve project goals and to bring synergy on development impact through their partnership.

## **Access to Asian Development Fund (ADF)**

9. Pointing out that the report has classified ADB's assistance program to be successful, but on the low side, one DEC member asked if the low side rating may have been the result of India's lack of access to ADF. If India had access to ADF, it could have helped India to eradicate poverty a little more. He asked what OED thought of this lack of access of ADF to India. He further noted that there are limits on ADB's assistance to any country and that for major countries like India, and China, ADB's assistance may be even less than one percent of the amount needed for development, and asked if ADB could have provided more assistance than that would have made a difference.

## **More field office resources for improving project implementation**

10. A DEC member commended OED for recommending that more field office resources should be added to improve project implementation. He added that ADB should also provide more support for executing agencies (EA) and other local entities in charge of project implementation.

## **Knowledge Services**

11. Observing that demand for knowledge services from middle-income countries like India and China are likely to increase, a DEC member asked if ADB is ready to meet such demands. OED responded that clearly knowledge management is an area where ADB could do more but has not been able to. ADB is not as successful as it would like to be. The main reason is the skills of the staff. ADB tries to outsource through TAs and consultants; these efforts are sometimes successful and at other times not so.

## **Regional Cooperation**

12. Noting that India has been active in promoting South Asia Regional Cooperation, a DEC member asked why the report did not deal extensively with the issue and/or its recommendation

for ADB's assistance to India to participate in regional projects to integrate with the regional economies. OED responded that there has not been much investment projects in the region. There has been much policy dialogue that ADB supported. Now there are a few projects, but they are not completed yet. It would be a good topic for the next CAPE to cover. DG, SARD added that the first investment project in regional cooperation is soon coming to the Board for its consideration. It is a project in information communication technology. It is small, but there is an understanding among the four countries about the benefit to be mutually shared.

### **World Bank versus ADB**

13. A DEC member asked OED what they thought of the relative performance of the World Bank (WB) vis-à-vis ADB in providing assistance to their members. OED responded that WB has three times as many staff in their resident mission in India as ADB has in its resident mission in India. ADB resident mission staff is under stress. The portfolio of WB in India is similar to that of ADB. Consequently, with a larger staff, WB can generally do things better than ADB. They do better in knowledge management, macro-economics etc. They certainly do better on safeguard policies. It is a difficult comparison, but in terms of resources, WB has much larger resources than ADB in every country across the region. An OED staff added that in general, ADB fares better in project management and does poorly in knowledge services and policy dialogue and that perhaps reflect the quality of ADB's staff resources and its reliance on TAs and consultants.

### **Financial Sector Operations**

14. Noting that there were many cancellations in financial sector operation due to lack of demand and other problems, a DEC member asked why this happened and what could be done to prevent such a thing from happening in the future. OED responded that due to unaddressed structural impediments, there were not enough private sector infrastructure projects that would have met the criteria set by ADB for its credit lines that supported infrastructure projects. In the housing market, there were enough alternative financing resources available locally at better rates. Initially, ADB's line of credit looked competitive in terms of pricing. But as domestic interest rate, exchange rate, and guarantee fees of the government changed ADB funds became unattractive. INRM staff added that one of the reasons for the low demand for the loans was that ADB was imposing its safeguards, particularly those relating to re-settlement, on the sub-borrowers. As these would affect profitability, the private sector borrowers were reluctant to accept these conditions and borrow. Another reason was that there was surplus of liquidity in the economy, and the interest rates were not favorable.

### **Viability of Transport Sector Projects**

15. Recollecting that DG, OED had earlier stated in a previous DEC meeting that internal rate of return (IRR) calculations of transport sector projects are based on overly optimistic assumptions, and that these projects on average are delayed by a year and a half, thus rendering these IRR calculations meaningless, DEC member asked when ADB was going to learn the appropriate lessons and take action to address these issues.

### **Anchor Expansion and Lending Volume**

16. The report's recommendation 1(iii) asks ADB to "anchor expansion in lending volumes and the addition of new sectors and states to a country strategy business plan which ensures

that aspirations are matched by adequate resources". A DEC member noted that the Management has sidestepped the issue of developing a business plan as part of CPS.

### **Economic and Thematic Sector Work**

17. A DEC member noted that the economic and thematic sector work as a component of work program should be agreed with the Government of India as part of CPS rather than being decided on an ad-hoc basis. He invited DEC to take a position on this issue. He further pointed out that Management appears to be sidestepping the related recommendation on this issue by OED.

### **Headroom for Private Sector Lending**

18. Noting the Management view that use of currency swaps will increase headroom for private sector lending, one DEC member asked how the currency swaps would increase the headroom. INRM staff responded that exchange risk is often too much for a private sector borrower to bear and currency swap is one of the mechanism ADB has by which it eliminates the foreign exchange risk for the borrower.

### **Procurement from Non-member countries**

19. Noting that the Government of India has specifically suggested relaxing procurement restriction from non-member countries for the PPP projects as the Government of India system is based entirely on competition, one DEC member asked SARD and COSO to respond to this suggestion. Country Director, India, stated that the first stage of implementation of a PPP project is to select a partner to undertake the PPP. Under the model concession agreement, the partner will have to establish a company under the Indian Companies Act. Thus, the nationality of the company that will do the project will be Indian. Consequently, there is a difference between the traditional way of procuring civil works and supplies. The Government of India is requesting ADB to reconsider the way it applies the procurement guidelines. Principal Director, COSO, responded that procurement from non-member country is a restriction imposed by the ADB Charter. He added that COSO is looking at this issue in a creative way. It is an important issue, particularly given the magnitude of the investment needs. He agreed with the analysis of Country Director, INRM and added that this is a financial engineering in a grand way and that it is not a procurement of civil works for a simple project. He further added that COSO is consulting with ADB's legal department and he was optimistic about a good outcome.

### **Is ADB Operating in too many states for it to be effective?**

20. While acknowledging that it is important to be present in states where there is poverty, a member asked if ADB is involved in too many states for its operation to be effective. Is the span of control optimal? Country Director, INRM responded that until 2003, ADB operation was focused on selective states. In most cases, these states were considered to be reform minded. As a consequence of ADB's success in these states, several of them are performing better. He cited several examples to support his argument. This has allowed ADB to expand its geographical coverage, which is also the wish of the government.

## Conclusions

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

- (i) DEC noted the rating of successful on the low side. Some members emphasized that the report should give prominence to the recent period within the 20 year period the evaluation covered.
- (ii) For better performance, what is important is knowledge, quantity and quality of resources.
- (iii) DEC endorsed the policy of infrastructure led poverty reduction, but wanted Management to carefully analyze the consistency between LTSF and MTSII on the one hand, and emphasis on rural development and agriculture on the other.
- (iv) Safeguards are important, but there is need to harmonize safeguard standards.
- (v) Some members also encouraged the authorities to consider environmentally challenging projects.
- (vi) The problem of coordination between ADB's public and private sector operations was emphasized, so was capacity development.
- (vii) The need for accelerating regional cooperation in South Asia was emphasized.
- (viii) The question of strengthening the Resident Mission as well as providing adequate financial resources was necessary to be resolved before drawing up the forthcoming country partnership strategy.

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