

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee's Discussion on 15 February 2008 of the Special Evaluation Study of the Asian Development Fund VIII and IX Operations

1. 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 (PBA) Policy; adding a governance dimension to operations; the grant mechanism; and progress with aid coordination, cofinancing, and harmonization.

Summary of Discussions

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

3. Development Effectiveness Committee (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.

4. **Performance-Based Allocation.** Management clarified that ceilings and/or 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.

5. 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.

6. 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.

7. 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.

8. **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.

9. 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.

10. **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.

11. 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.

12. **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.

13. **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.

14. 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.

15. **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

16. 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.

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