

# Improving ADB's Strategic Focus and Operations in India

- **India** has made fast economic progress in the last decade but still battles high levels of **poverty**.
- Traditionally, ADB's **lending** and **technical assistance** to the country have focused on **infrastructure**. Was ADB's operational focus appropriate for supporting sustainable economic growth and poverty reduction? How has ADB's assistance performed? How might ADB's strategic focus and operations be improved? The findings of an evaluation of ADB's country assistance program in India have implications for resource allocation, design and focus of operations, program management, and business processes.

## Background

The period from the mid-1980s saw the Indian economy's gradual and sometimes halting transition from nearly a quarter of a century of extensive state regulation and ownership, to a more market-oriented economic system. It also saw acceleration of **gross domestic product** growth rates after economic reforms were initiated in 1991, and sizable reduction in poverty levels from 45% to 28%. Strategies of the Asian Development Bank (ADB) in 1986, 1990, 1996, and 2003 helped reforms while prioritizing assistance to infrastructure in support of equitable growth.

In 2007 the Operations Evaluation Department conducted the first **Country Assistance Program Evaluation for India**.<sup>1</sup> The study was informed by sector assistance program evaluations for the transport and energy sectors, and a **Special Evaluation Study on ADB Support to Public Resource Management in India**. It precedes preparation of the new **country partnership strategy** for 2008–2012.

The study examined operations approved from 1986, the first year of ADB's operations in the country, to 2006. It followed the **Guidelines for the Preparation of Country Assistance Program Evaluation Reports** and is based on strategic/institutional and sector performance assessments considering ADB's strategic positioning, contribution to development results, and performance, and the relevance, effectiveness, efficiency, sustainability, and impact of ADB's sector operations.

Assessments were based on perception surveys, interviews, reviews of sector and project performance evaluations and special evaluation studies, and rapid sector assessments.

## Summary of Findings

ADB's strategies and programs were well aligned with ADB's corporate objectives and the Government's development strategies, but also reflected the latter's shortcomings, particularly during the pre-reform area, when infrastructure investments were financed despite deficient policy and institutional frameworks. ADB's lack of sector strategies for the first ten years of operations in India negatively affected the sequencing and continuity of ADB's assistance in a number of sectors. The shift from central to state-level operations after 1996 has helped improve the geographic and institutional focus of ADB's country program, which, together with comparatively high sector selectivity, facilitated efficient and effective use of ADB's resources.

Although ADB's assistance compared to India's overall investment requirements has been small, ADB made significant contributions to the development process, most importantly through its support for project design and implementation, advisory services, and policy dialogue at the state level. However, ADB failed to add much value in the provision of knowledge products and services and risk mitigation. ADB assistance helped build much-needed infrastructure

and contributed to improving policy and institutional frameworks, which supported economic growth. The recent expansion of ADB's operations to more backward states with high poverty incidence and to rural areas is likely to contribute to more equitable growth and poverty reduction, and urban development projects have helped improve the delivery of basic services, thereby reducing non-income poverty.

ADB's focus on project approvals, inadequate staff resources, limited delegation of authority for project implementation to ADB's **India Resident Mission**, application of safeguards and procurement policies, and unaddressed capacity problems of executing agencies contributed to significant project implementation delays. Proactive portfolio management measures jointly instituted by ADB and the Government, as well as the use of new modalities under ADB's **Innovation and Efficiency Initiative**, have led to recent improvements.

Energy and public resource management sector operations were deemed "successful". Operations in the transport, urban, and financial sectors were judged "partly successful on the high side". The effectiveness of financial sector operations was reduced by cancellations of financial intermediation loans, which accounted for a large share of sector assistance, due to lack of effective demand resulting from unaddressed sector-level structural problems and the ready availability of domestic funds. The efficiency of transport projects is likely going to be affected by lower-than-forecast traffic volumes and implementation problems that may lead to cost overruns. Lack of adequate funds for operation and maintenance activities and weaknesses in institutional capacity might reduce the sustainability of projects in the roads and urban sectors.

The overall rating for ADB's assistance program in India was "successful", albeit on the low side, this based on strategic/institutional and sector performance ratings.

## Recommendations

- Improve the strategic focus of ADB's operations in India by carefully analyzing and selecting sectors for inclusion in ADB's assistance program; concentrating resources in a manageable number of focus states; anchoring an expansion in lending volumes and addition of new sectors and states to commensurate increases in staff and technical assistance resources; and considering support for environmental issues.

- Improve the quality of ADB's sector lending by discontinuing financial intermediation lending for which there is no effective demand or value addition; addressing project sustainability issues through stakeholder consultations on project/program design options and related tariff or fiscal requirements and through capacity development support; preparing realistic project implementation schedules and arrangements; and strengthening staff incentives for project implementation.
- Increase the level of private sector operations by developing a joint operations strategy covering both the public and private sector sides of ADB; equipping the India Resident Mission with more capacity and accountability for private sector and other non-sovereign transactions; expanding headroom for private sector lending to India; shifting funding from ADB's public to private/nonsovereign windows when feasible; and catalyzing funding from commercial sources through the use of risk mitigation instruments.
- Improve the relevance and effectiveness of nonlending services by focusing economic and sector work on topics relevant to ADB's lending operations; strengthening staff incentives for economic and sector work; providing staff resources with infrastructure regulatory, policy, institutional, public-private partnership, and financing expertise; and encouraging the recruitment of exceptionally well qualified international and national consultants.
- Improve responsiveness to client concerns by considering decentralization of additional functions and delegation of more authority to the India Resident Mission, and harmonizing the approach to common safeguards issues in India and gradually moving toward country systems where equivalence with ADB principles exists.

## Feedback

When these *Learning Curves* were prepared **ADB Management's Response** and the **Chair's Summary of the Development Effectiveness Committee Discussions** were not available for disclosure to the public. The study was completed in September 2007.

<sup>1</sup> ADB. 2007. *Country Assistance Program Evaluation for India*. Manila. Available: <http://www.adb.org/Documents/CAPES/IND/CAPE-IND-2007.pdf>