

# Asian Development Fund VIII and IX Operations – Targeting Poverty and Governance

- ADB established the **Asian Development Fund** in 1973 to serve as the primary source of finance for its concessionary lending operations. Since Asia is developing fast and poverty is declining, is the poor-oriented ADF still relevant in the 21<sup>st</sup> century?
- What is the experience with ADF's **performance-based allocation** mechanism? Has its approach to poverty targeting in countries in 2001–2004 worked out? What of ADF's focus on governance in 2001–2008?

## Background

The Asian Development Fund (ADF) has been provided grants by a large number of donors every 4 years. Historically, ADF has financed a quarter of all Asian Development Bank's (ADB) operations.

In 2007, the **Development Effectiveness Committee** of ADB's **Board of Directors** requested the Operations Evaluation Department to assess the performance of the seventh replenishment of ADF (labeled **ADF VIII**) for 2001–2004 and the eighth replenishment (**ADF IX**) for 2005–2008 in preparation for donor meetings on the ninth (**ADF X**) for 2009–2013.

On average ADB approved \$1.5 billion each year over the period 2001–2008. The total funds available from reflows of earlier ADF loans and new donor contributions were about \$12.6 billion. To investigate the returns, the **Special Evaluation Study on Asian Development Fund VIII and IX Operations** drew on (i) ADB and operations evaluation databases and documents; (ii) interviews with ADB staff and experts; (iii) country visits to **Bangladesh, Lao People's Democratic Republic, Nepal, Pakistan, and Viet Nam**; and (iv) 25 project case studies in these five countries.<sup>1</sup>

## Summary of Findings

**Allocation Patterns.** The study noted that (i) ADF resources are modest, given the huge challenges that remain to reach the **Millennium Development Goals**,

and have not expanded significantly in real terms since the early 1990s; (ii) rapidly increasing loan service payments to ADB may reduce net ADF transfers in the near future; (iii) **ADF-receiving countries** are home to only about 113 million of the 620 million poor in Asia (**People's Republic of China, India, Myanmar, Philippines, Thailand**, and some others do not have access); (iv) the size of ADF allows it to exert some measure of policy leverage in at least 13 countries; (v) ADF VIII, and to a smaller extent ADF IX, funded many poverty interventions; (vi) both ADF VIII and IX achieved the focus on governance desired by ADB and ADF donors; (vii) the total number of thematic priorities addressed by ADF increased; and (viii) the desired increased attention to rural development and social (human) development was not entirely realized.

**Development Effectiveness.** ADF operations have become more successful over the decades. Of the operations approved in the 1990s, 67% were rated successful. On the other hand, 11 **country assistance program evaluations** were sometimes less positive. Some of the larger clients had programs rated only partly successful. Main reasons for this were related to the inadequate positioning of ADB's country partnership strategies and programs; inefficiencies; and lack of sustainability. The upward trend in success rates may have stalled, hopefully temporarily, according to 25 project case studies of (ongoing) operations, funded

under the eighth replenishment. This trend could be caused in part by increased goal congestion in ADF operations: ADB's Management and the Board of Directors put much pressure on staff to prepare inclusive project designs in the early years of the 1999 **Poverty Reduction Strategy**, given the drive for operations to benefit the poor disproportionately. This led to inefficient complexity. Other reasons might have been frequent staff transfers as a result of reforms and reorganizations. Detailed country partnership strategies have also made greater demands on staff, including those associated with safeguards. About half of the special components targeting the poor and governance in the operations sampled were unlikely to be successful. Nevertheless, some good results were also observed: these owed partly to satisfactory staff intensity and continuity. Efforts to target the poor through special components in regular operations were deemphasized under ADF IX and declined, but not governance targeting. The study was critical of the workings of the performance-based allocation mechanism instituted for ADF in 2001. It questioned how governance and portfolio performance ratings were arrived at, and saw the mechanism favoring less poor countries over the poorest.

The study rated ADF VIII as less relevant but ADF IX as highly relevant, and rated ADF VIII also as less effective and efficient. The efficiency and effectiveness of ADF IX was not rated as it only started in 2005. ADF IX may however turn out to be more efficient and effective, as many reforms have recently taken place.

#### Recommendations for ADF Donors

- ADF's size should increase if it is to accelerate the achievement of the Millennium Development Goals. Despite its modest size relative to the massive challenge of development, ADF can be an effective instrument. Only a large ADF will provide the leverage needed to achieve policy change and governance objectives.
- Donors should consider the role and credibility of ADF. ADF currently addresses a subset of countries with only 18% of the poor. With expanding reflows from earlier loans and new contributions from donors, ADF X may present opportunities to help a greater number in more countries.
- ADF X should avoid goal congestion in operations and in ADB as a whole. The unintended effect of the Poverty Reduction Strategy and donor meetings

may have been a very broad agenda of priorities. New activities have implications for ADB staffing that are difficult to provide when shareholders have placed strict limits on increases in ADB's budget.

#### Recommendations for ADB

- ADF needs to be more selective in its support for sectors (and within these, subsectors) in many countries. ADB should continue to review its sector focus at the corporate level but especially at the country level.
- Poverty reduction is an appropriate goal for ADF operations, and requires more than direct targeting of the poor in each country.
- An ADF geared to poverty reduction and governance is staff-intensive and requires specialized skills. An expansion of ADB staff is needed. Expansion of staff in resident missions should continue.
- Aid harmonization remains a necessary element of ADF's approach. Coordination of country programs with aid agencies should be prioritized to increase sector specializations.
- Major governance issues should be addressed primarily through program lending, with agreed reforms supported by technical assistance. The governance components of investment projects should be realistic.
- ADB should test the validity of the country performance assessment indicators, preferably in partnership with the World Bank.
- ADB needs to pursue a varied approach to the debt distress of ADF-eligible countries, and not rely mainly on the institution of an ADF grant mechanism (as was done in 2005).

#### Feedback

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

<sup>1</sup> ADB. 2007. *Special Evaluation Study on Asian Development Fund VIII and IX Operations*. Manila. Available: <http://www.adb.org/Documents/SES/REG/SST-REG-2008-01/SST-REG-2008-01.pdf>