

MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR INDIA

On 18 October 2007, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate OED's comprehensive and well-analyzed Country Assistance Program Evaluation (CAPE) for India. The CAPE provides a good overview on how ADB's India operations have gradually evolved from primarily providing financing in the mid-1980s to supporting the Government's efforts towards policy and regulatory reforms and infrastructure development thereafter. We are pleased to note that the Government of India (GOI) considers ADB as a "responsive and dependable development partner" as mentioned in Box 1 of the CAPE. This reflects both the maturing of ADB-GOI relationship and the natural evolution of services required by ADB's key middle-income clients such as India.

2. Overall, the CAPE has rated ADB's assistance to India as "successful" but on the low side, implying that it could have been better. We concur with this rating and endorse the overall conclusions and key recommendations of the CAPE, which will be addressed in ADB's upcoming Country Partnership Strategy (CPS) for India for 2008–2012.

3. The CAPE rated ADB's portfolio management as "modest, but on the high side", considering recent improvements. We note that owing to recent measures instituted by ADB and GOI, implementation performance significantly improved in 2005 and 2006. These measures include (i) adoption of readiness filters to improve the quality-at-entry of projects and programs; (ii) regular, sector-focused tripartite portfolio review meetings with central and state level executing agencies (EAs); and (iii) devoting an increasing share of ADB's staff resources for strengthening the capacity of EAs in terms of project implementation.

II. Comments on Specific Recommendations

Recommendation 1. To Improve Strategic Focus of ADB Operations

4. **Recommendation 1(i).** We agree with the CAPE's suggestion that entry into new sectors should be based on adequate sector analysis and a strategy for longer-term involvement. We note that the core focus of ADB's India operations (2008–2012) will remain on infrastructure development (transport, urban, and energy) including agribusiness and irrigation infrastructure and strengthening of governance and finance as laid down in the Country Strategy and Program (CSP) 2003, and later reconfirmed in the subsequent CSP Updates. With respect to agriculture and water resources—sectors where ADB is relatively new in India—several background studies are being undertaken, and substantial effort has been devoted to building relationship with the concerned Ministries over the past 2 to 3 years.

5. **Recommendation 1(ii).** We note that given the sense of urgency in speeding up the process of infrastructure development across the country, the GOI has requested ADB to expand operations in poorer and weak capacity states. Therefore, since 2003, ADB has been increasingly focused on the relatively poorer and weak capacity states such as Assam, Chhattisgarh, Jammu and Kashmir, Jharkand, Madhya Pradesh, Rajasthan, Uttaranchal, the North eastern region, and more recently Bihar to support GOI's efforts towards reducing inter-state disparities.

6. In order to maintain a balance between states of differing capacities as recommended by the CAPE, the current and proposed country program includes—in addition to weak capacity states—some relatively strong capacity states such as Gujarat, Haryana and Andhra Pradesh, as well as states such as Karnataka and Rajasthan where ADB has had long engagement, and where the EAs are familiar with its policies and procedures.

7. **Recommendation 1(iii).** We agree with the recommendation that increase in lending volumes should be matched by adequate staff resources. An assessment of the staff and Technical Assistance (TA) resources required for effectively delivering the proposed program is being made for the forthcoming CPS. However, we note that actual allocation of the staff and TA resources will be subject to the ADB-wide Work Program and Budget Framework exercise.

8. **Recommendation 1(iv).** We note that a detailed environmental assessment is being undertaken for the India CPS, given the concerns about managing the pressures on natural resources and the environment as a result of India's rapid economic growth. It will consider the scope of including stand-alone environmental projects and suggest ways of improving the mainstreaming of environmental concerns in ADB's India operations as recommended by the CAPE.

Recommendation 2. To Improve the Quality of ADB's Sector Lending

9. **Recommendation 2(i).** We agree with the observation that (a) financial intermediation (FI) loans should not be pursued unless there is a well-demonstrated demand for such financing, and (b) ADB is able to add more value to financial market development by addressing structural impediments affecting demand.

10. On (a), while the performance of FI loans was not satisfactory, we note that it was largely due to external factors such as the economic recession and differences between ADB and GOI social safeguards. We note that these issues are now being addressed and that the demand for FI loans remains substantial.

11. On (b), it needs to be recognized that despite reforms being pursued by GOI, the long-term debt market in India remains relatively underdeveloped. Hence, demand for long-term loans from international financial institutions particularly for infrastructure, trade, and housing is expected to continue until such time that the domestic market is able to provide these resources. Therefore, we believe that it is appropriate for ADB to continue to help fill these resource needs while simultaneously promoting reforms through TAs and policy dialogue with GOI to promote innovative solutions for long-term local currency markets through sustainable FI products.

12. **Recommendation 2(ii).** We appreciate the need for adequate stakeholder consultations and a thorough assessment of the capacity of its counterparts for improving project design and sustainability. South Asia Department (SARD) project teams are already following this approach. The CAPE notes the effort made by ADB to undertake consultation and encourage participation of stakeholders to address the issues of sustainability, building consensus, ownership and ability to pay for services. The inclusion of a case study featuring a project (the Karnataka Urban Development and Coastal Environmental Management Project, Appendix 9, para. 39 of the CAPE report) with significant participatory aspects helps illustrate our client-oriented approach.

13. **Recommendation 2(iii).** We note that OED's recommendation for improving the quality of project design and implementation is already being addressed by SARD. SARD developed Project Readiness Filters to improve quality-at-entry, and this has been strongly endorsed by GOI. SARD is also encouraging advance action on procurement for speeding up contract awards and disbursements.

14. The increased focus being given to project implementation by SARD Management and the sector focused tripartite portfolio review meetings (TPRMs) are helping in the sharing of implementation experience among ADB staff and EAs, working across different sectors and states. Many of ADB staff who participate in TPRMs are also responsible for processing loans. Hence, the TPRM discussions help them to factor in lessons learnt during implementation at the project design phase and to prepare realistic implementation schedules and arrangement. Results of these efforts over the past few years have been encouraging. For instance, contract awards increased from \$557 million in 2004 to \$1,723 million in 2006, disbursements increased from \$381.4 million in 2004 to \$701.4 million in 2006, and the proportion of projects-at-risk has fallen from 25% in 2004 to below 10% in 2006.

15. **Recommendation 2(iv).** We note that a system to enhance staff incentives for project implementation has been established. The performance development plan (PDP) process provides a mechanism for regional departments to recognize appropriately the contribution made by staff working in the areas of project implementation and portfolio management.

Recommendation 3. To Improve Non-lending Services

16. **Recommendation 3(i).** We note that our economic and thematic sector works (ETSWs) have been guided by the principle that they should be operationally relevant. For example, the recent ETSWs include among others: (i) Prerequisites for Capital Formation in Agriculture: Public-Private Partnerships (PPP) for Enhancing Rural Infrastructure; (ii) Scope of Transfer of Railway Activities (Core and Non-Core) to Private Sector; (iii) Rural Electrification: Access and Quality Aspect; and (vi) Promoting Energy Efficiency and Conservation. In addition, SARD publishes a bi-annual South Asia Economic Report with a theme chapter on emerging macro and sectoral policy issues, which helps guide both lending and non-lending operations at the department level.

17. **Recommendation 3(ii).** We accord high value to ETSWs. The PDP process provides a mechanism for regional departments to recognize appropriately the contribution made by staff through ETSWs.

18. **Recommendation 3(iii).** We concur with OED's assessment that staff with specialized skills in infrastructure regulatory, policy, institutional, PPP, and financing management will be required in the coming years, especially for effectively implementing the innovation and efficiency initiative (IEI) modalities in India and for working on PPP projects. SARD is working with Budget, Personnel, and Management Systems Department (BPMSD) to identify staff with skills needed for the proposed operations. Recruitment of staff with the required experience and skill-mix has been facilitated by the recent BPMSD initiative of bulk recruitment for strategically important positions.

19. **Recommendation 3(iv).** We agree with the CAPE suggestion that ADB encourage the engagement of well-quality consultants in our non-lending activities.

Recommendation 4. To Increase Private Sector Operations

20. **Recommendation 4(i).** We agree with the recommendation that the staff strength in India Resident Mission (INRM) needs to be increased for effective handling of business development and nonsovereign infrastructure financing operations. However, this needs to be done within the constraints of available resources on an ADB-wide basis. We note that a Private Sector Operations Department (PSOD) staff has already been posted at INRM for the past two years, and further resources for INRM are being considered.

21. **Recommendation 4(ii).** We note that ADB plans to review the country limits of nonsovereign exposure in 2008. In terms of leveraging additional resources through cofinancing for economies like India's, there is significant scope for commercial cofinancing and IEI-type initiatives. ADB also needs to adopt innovative financial instruments such as currency swaps. PSOD and SARD plan to work with other departments concerned to pursue a dialogue with GOI for promoting long-term, fixed interest rate bearing local currency lending through sustainable FI products.

22. **Recommendation 4(iii), (iv), & (v).** We note that according to the CPS guidelines, SARD and PSOD have been collaborating closely in preparing integrated public and private sector roadmaps and identifying opportunities for increasing nonsovereign operations in the infrastructure sector and for shifting of funding from the public to the private and nonsovereign windows wherever feasible. We encourage entities, which can borrow based on their balance sheets, to access ADB's nonsovereign window.

Recommendation 5. To Increase Responsiveness to Client Concerns

23. **Recommendation 5(i).** We agree in principle with the need to decentralize more of ADB's functions and delegate more decision-making authority to INRM on project implementation matters. However, these are ADB-wide generic issues, which have resource implications. We note that the ongoing review of the resident mission policy will inform these recommendations.

24. **Recommendation 5(ii).** While we support the need to improve and harmonize with country systems, this needs to be recognized as an ADB-wide policy issue, which is also related to the Harmonization (with multilateral development banks) and Alignment (with country systems) Agenda under the Paris Declaration. The Safeguard Policy Update, which is currently underway, will inform these recommendations.

25. **Recommendation 5(iii).** We agree, of course, with the CAPE's recommendation that regular dialogue with senior-level officials is required. We note that SARD undertakes regular dialogue with senior Government officials on various issues, and that we will continue to work closely with our key stakeholders in India.