



Poverty Reduction Cooperation Fund (PRF)

PROGRESS REPORT

28 July 2003

I. INTRODUCTION

1. This Progress Report describes the activities under the Poverty Reduction Cooperation Fund (PRF) covering the period from the PRF's establishment in July 2002 to 30 June 2003.¹ This follows the report on the Status of PRF Projects as of March 2003 submitted to the Department for International Development of the Government of the United Kingdom of Great Britain and Northern Ireland (DFID). The Report includes the key progress made since March and lessons learned during the first year of the PRF.

2. To coincide with the financial year of the Asian Development Bank (ADB), it is suggested that the first formal Annual Report on the PRF cover the period from July 2002 to 31 December 2003, and thereafter it will follow ADB's annual report cycle. The formal Annual Report will be an official document that will also be circulated to ADB's Board of Directors for information.

II. BACKGROUND

3. Established in July 2002, the PRF comprises an initial contribution of £39 million² (about \$65 million as of 30 June 2003) from DFID. The following paragraphs summarize the key features of the PRF as described in the Board Paper.³

A. Purpose and Objectives

4. The goal of the PRF is to assist ADB in reducing poverty in its developing member countries (DMCs). The PRF thus augments ADB's efforts for poverty reduction and, as a result, (i) assists in policy dialogue and strategy formulation on poverty reduction; (ii) develops new programs and projects with increased focus on poverty reduction; (iii) monitors and assesses the poverty reduction impact at the project, meso-, and macro-levels; (iv) launches pilot poverty reduction activities to influence future loan design; (v) involves broader stakeholder consultations at all stages of design and implementation; (vi) strengthens ADB's role as the regional development bank for Asia and the Pacific to promote poverty reduction; and (viii) helps perform other activities as mutually agreed upon between DFID and ADB.

B. Activities and Scope

5. The PRF was established to support the following activities: (i) technical assistance (TA) for capacity and institution building; (ii) provision of advisory inputs; (iii) thematic and sector work; (iv) monitoring, evaluation, and impact assessment; (v) public conferences, workshops,

¹ The Report does not include the activities carried out under the PRF in the People's Republic of China (PRC), which are managed by ADB's Resident Mission in PRC, in collaboration with DFID's local office.

² £30 million from DFID's regional cooperation window and £9 million from its PRC window.

³ ADB. 2002. *Cooperation with the Government of the United Kingdom and Northern Ireland: Poverty Reduction Cooperation Fund*. Manila.

and other events; (vi) innovative activities such as micro and pilot projects, with clear demonstration effects; (vii) supporting national experts based in ADB's resident missions (RMs) working on poverty analysis, and poverty-related gender, stakeholder participation, and governance issues; (viii) outreach and communication; and (ix) administrative costs of fund management. The PRF is not meant to be used for ADB's permanent staffing costs (including salaries and training). It is principally focused on country-based work albeit cross-border activities can be supported as long as they will have a measurable impact on the poverty situation in a country. Projects supported by the PRF are generally in the range of \$0.1 to \$1.0 million.

6. The PRF particularly supports strengthening the role of RMs. It encourages RMs to initiate and implement projects that support innovative action research, and country- or theme-focused poverty analysis, stakeholder coordination, NGO involvement, pilot activities, and poverty reduction monitoring. It plans to further strengthen selected RMs by providing additional consultant expertise to ADB staff (para. 5).

C. Eligibility

7. The PRF is open to ADB's DMCs classified as A, B1, or B2 countries, excluding India for which there is a separate DFID fund.⁴ All activities should (i) have a strong poverty reduction focus; (ii) support the relevant ADB country strategy and program and the policies of the government; (iii) be designed to support shared poverty objectives in the existing and pipeline activities of other funding agencies, to enhance effectiveness, avoid duplication, and accelerate learning; (iv) not substitute for activities that would otherwise be financed by ADB (additionality factor); (v) make maximum use of local expertise and civil society participation; and (vi) support projects solely based on their merit for systemic poverty reduction, with no specific country allocation.⁵

D. Approval Process

8. The following approval process guides the selection of projects for PRF countries excluding the PRC:⁶

- (i) Projects can be proposed at any time by the regional departments and RMs by submitting a concept paper to the Regional and Sustainable Development Department (RSDD).
- (ii) RSDD will initially screen the proposals, conduct a peer review with other staff, and submit the revised proposals to DFID.

⁴ According to ADB's classification for its DMCs as of 9 January 2003, (i) Group A comprises Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Mongolia, Myanmar, Nepal, Samoa, Solomon Islands, Tajikistan, Tuvalu, and Vanuatu; (ii) Group B1 comprises Azerbaijan, Bangladesh, Cook Islands, Federated States of Micronesia, Pakistan, Republic of Marshall Islands, Sri Lanka, Tonga, and Viet Nam; and (iii) Group B2 comprises PRC, India, Indonesia, Nauru, and Papua New Guinea.

⁵ The PRF comprises a component for financing PRF activities in the PRC. A separate PRC component is provided because DFID is financing such projects from its country allocations for the PRC, whereas funds are provided through a regional cooperation window for all other eligible countries. Because of the direct link to DFID's PRC portfolio, it is also expected that such PRF projects for the PRC will be closely linked to and integrated into ADB's CSP, promote civil society participation in poverty reduction, and make maximum use of local expertise and nongovernment organization (NGO) involvement.

⁶ The approval process of the PRC component of the PRF is explained in detail in Appendix 3 of the Board Paper (see footnotes 1 and 3).

- (iii) After obtaining approval of the concept paper by DFID, the regional departments (including RMs) finalize the project proposal following ADB's general procedures.
- (iv) In line with the mandate of RSDD under the new business processes, RSDD also functions as ADB's internal clearinghouse for policy compliance and quality assurance before the PRF proposal will go to Management or the Board of Directors for approval on a non-objection basis.

The more detailed project processing steps for PRF projects are in Appendix 1.

E. ADB Responsibilities

9. ADB is responsible for (i) services provided by headquarters and RM staff for designing, preparing, overseeing, coordinating, and managing the projects and activities under the PRF; and (ii) office, secretarial, and equipment support. Within ADB, RSDD is responsible for managing the PRF and functions as the communication link to DFID on technical matters. It is responsible for reporting on implementation progress to DFID on the activities financed under the PRF. It also supports the operational departments in project processing. The regional (operational) departments are responsible for developing, processing, and implementing the individual projects. The Office of Cofinancing Operations (OCO) acts as the official channel of communications between DFID (and other possible participating donors) and ADB. It monitors and reports on the financial performance of the PRF.

III. OVERVIEW OF THE FIRST YEAR OF OPERATIONS (JULY 2002-JUNE 2003)

A. Financial Status

10. **Status of PRF Grant Utilization.** The total PRF contribution committed by DFID (£39 million) was equivalent to about \$58 million in July 2002. As of 30 June 2003, the value of the PRF fund (including income from investment and interest earned) was \$65,000,778.36. To date, ADB has received US\$6,387,500 equivalent in two tranches.⁷ Of this amount, \$4,650,000 (73%) has been committed for 12 TA projects (para. 14). The total actual expenditures (including administrative costs and bank charges) till June 2003 amounted to \$73,211.25. The financial statements on the PRF as of 30 June 2003 are in Appendix 2.

11. **Overall Endorsement Level.** As of 30 June 2003, the overall endorsement amounted to \$11.47 million for 26 TAs (excluding administration costs and bank charges). In addition, if it is assumed that all the new proposals for consideration at the Third Strategy Meeting on the PRF and Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies (NPRS)⁸ in July 2003 amounting to about \$9.4 million (para. 17) are approved, then the overall endorsement will amount to about \$20.87 million (excluding administration costs and bank charges). Considering that the PRF has been operating for only 1 year, and that it required substantive efforts to overcome teething problems, the performance during the first year is faster than envisaged.

⁷ July 2002 (\$5,387,000) and April 2003 (\$1,000,000).

⁸ Established on 22 November 2001, with an initial contribution of 15 million Dutch guilders (about \$6 million), the NPRS aims to help ADB's DMCs formulate, prioritize, implement, monitor and reformulate their national poverty reduction strategies.

12. **Six-monthly Expenditure Projection.** An estimate for project expenditures (and bank charges) has been prepared for July-December 2003, which includes an allocation for two new proposals (out of 17) to be considered in the Third Strategy Meeting (para. 17). Projected expenditure is estimated to be about \$3.3 million (Appendix 3), and as such there is no need for additional remittance until December 2003. A fresh assessment will be made in December 2003.

B. Project Status

13. A total of 26 projects have been endorsed by DFID during the first (15-17 July 2002) and second (11-13 December 2002) Strategy Meetings.⁹ Twelve TAs have been developed, designed and approved, and are currently under implementation. Fourteen TAs are currently under processing and are expected to be approved by ADB Management by December 2003. The status of projects in the PRF portfolio is described in more detail in Appendix 4.

14. **Status of ADB-Approved TAs.** Out of the 12 approved TAs, 7 were approved in 2002, 4 of which had actual disbursements during this reporting period (Appendix 2). On average, 3-4 months are required after ADB approval for consultant selection, government concurrence, and fielding of the team. Actual disbursement starts thereafter.

15. **Status of TAs Under Processing.** Five out of 14 proposals are at advanced stage and are expected to be approved by ADB by the end of August 2003, and the remaining by December 2003.

16. **Profile of PRF Portfolio.** The PRF projects that have been endorsed by DFID cover all the nine areas of the envisaged activities and scope (para. 5). Cross-border and multi-disciplinary approaches have been adopted for majority of the projects. Four TAs have been initiated by RMs where they play a major role in facilitating and monitoring implementation. While the PRF portfolio spreads across all regions except for Southeast Asia,¹⁰ the share of the Mekong Region is highest in terms of number of projects (47%) and amount of PRF financing (38%). The portfolio also covers all key sectors, including agriculture (e.g., rural development, and natural resources management); infrastructure; social (education, health, social protection), trade, finance and private sector development; and governance. Approved TA amounts have ranged from \$15,000 to \$1,000,000.

17. **Status of Pipeline.** The Third Strategy Meeting will be held at the ADB Headquarters from 28 to 30 July 2003. After undergoing a peer review process in June 2003, 16 new and one previously concept-endorsed proposal (footnote 9) amounting to \$9,382,500 will be considered for PRF financing in 2003.¹¹ The list of proposals is in Appendix 5.

⁹ This excludes three projects that have been withdrawn from the portfolio: (i) *VIE-Making Market Reforms Work Better for the Poor in Viet Nam* (prioritized in the First Strategy Meeting for \$720,000) is now being funded by DFID-Viet Nam; (ii) *NEP-Enabling Private Sector to Do Poverty-Focused Water Distribution (Kathmandu Valley) in conjunction with the Melamchi Water Supply Project* (prioritized in the First Strategy Meeting for \$200,000) would be resubmitted with possible additional funding in the Fourth Strategy Meeting in December 2003; and (iii) Asia-wide proposal for *Enhancing Poverty Reduction Expertise in Resident Missions* (prioritized in Second Strategy Meeting for \$400,000) will be reconsidered in the Third Strategy Meeting.

¹⁰ The Philippines is not eligible for PRF financing since it belongs to Group C under ADB's graduation policy. While Indonesia is eligible, PRF has not been utilized because of the availability of the DFID local fund.

¹¹ On an exemption basis, another proposal for PRC (*Reform of China's National Development Planning Process*, \$175,000) will also be proposed in the Third Strategy Meeting.

C. Strategic Management

18. **Role of RSDD.** RSDD's strategic position as a technical advisor to the regional departments has enabled the preparation of quality proposals as well as synchronization with ADB's core poverty reduction activities. The reporting period being the first year, a lot of useful lessons have been learned to support the quality of ADB operations in poverty reduction.

19. Following the departure of the previous NPRS/PRF Coordinator on 31 January 2003, a new Coordinator was assigned in RSDD effective 14 April 2003. In June 2003, RSDD obtained the approval of the Budget and Management Services Division to recruit one temporary analyst and one temporary administrative assistant to further strengthen the management of the PRF. The actual recruitment procedures are being followed and the staff are expected to be in place by early August 2003.

20. **Reporting.** A Project Status reporting template (Appendix 6) was developed and circulated to all project officers in order for RSDD to obtain quarterly progress updates on each TA. The template also includes a section on 6-monthly disbursement projections. It is expected that this quarterly reporting by regional departments to RSDD will become a normal practice. RSDD has also developed a simple excel-based database which contain pertinent information on all the projects in the PRF portfolio. These serve as the basis for RSDD to estimate likely expenditures and, if necessary, additional requests for remittances to DFID.

21. **Donor Coordination.** From the very beginning, it was decided that the PRF would hold strategic discussions and harmonize administrative arrangements jointly with the NPRS (footnote 8). The benefits of this approach were well demonstrated by the two Strategy Meetings in 2002. The modality has proved effective in achieving the strategic objectives of each fund as well as efficient fund management. Coordination with the Japan Fund for Poverty Reduction (whose management responsibility moved from RSDD to OCO in February 2003) and other grant funds has been carried out through periodic information exchange at the coordinator level to ensure cross-learning and consistent approaches.

22. **Outreach and Communications.** Information and awareness about the PRF among ADB staff has increased significantly during this reporting period. To strengthen visibility, RSDD has undertaken various initiatives in 2002, including the PRF website (www.adb.org/prf) and interdepartmental briefings to familiarize ADB staff with the PRF and encourage its effective utilization. A major updating and revamping of the website with detailed case studies, and the publication of a pamphlet on the PRF are envisaged by December 2003.

23. **Lessons Learned on Strategic Management.** Overall for the first year, the management of the PRF has been successfully carried out. The feedback and comments provided by the project officers and others have been generally positive. The popularity of the PRF (together with NPRS) primarily comes from its promotion of 'innovative' activities for poverty reduction. The following are the key lessons learned on PRF management during the reporting period:

- (i) The peer review process is important in assuring project quality and should be continued.
- (ii) While the year-round submission and selection of proposals was originally envisaged, the semi-annual strategy meetings are becoming a de facto venue for batch approvals. The pros and cons of this need to be discussed further.

- (iii) It is important for the PRF proposals to remain outside of the indicative planning figure process of the country program planning to maintain the 'additionality' of the PRF to the poverty reduction impacts of ADB's core activities (para. 7).
- (iv) There is also a downside to not including PRF-funded activities in the country programming exercise: (a) another concept paper using the regular ADB template is needed for vice president's clearance; and (b) government concurrence is more difficult to obtain as the PRF TAs do not appear in the Country Strategy and Program. These problems have been contributing to delays in TA processing. Further discussions are needed to address these issues.
- (v) Working directly with NGOs and the relevant private sector partners is not always automatic and depends on the willingness of the government executing the TA.

IV. WORK PROGRAM FOR THE NEXT SIX MONTHS (JULY – DECEMBER 2003)

24. The major tasks for the next 6 months (1 July 2003–31 December 2003) will include the following:

- (i) Hold the Third NPRS/PRF Strategy Meeting (28–30 July 2003).
- (ii) Accelerate ADB approvals and disbursements under projects endorsed by DFID.
- (iii) Monitor progress of implementation of ongoing TAs funded by the PRF.
- (iv) Solicit new proposals for the Fourth NPRS/PRF Strategy Meeting in December 2003, and facilitate prior quality peer review.
- (v) Enhance outreach and communications on the PRF, including revamping of the website and preparation of good practice case studies.
- (vi) Further streamline administrative arrangements for NPRS/PRF processing.
- (vii) Enhance donor coordination.
- (viii) Continue monitoring the impacts of the PRF on ADB's strategic dialogue with its DMCs and other stakeholders on systemic poverty reduction.