

CHAPTER 6

Conclusions

Retro 2004 largely confirms the findings of *Retro 2002* and *Retro 2003* (Chapter 2)—primarily that, in the majority of projects reviewed, insufficient attention is paid to establishing a sound rationale for a project, in three main areas. First, the problems to be addressed are often not articulated in a sufficiently detailed manner or fully substantiated. As a result, it is difficult to assess whether the problems identified are real problems, how serious they are, and whether they should be a priority. Second, many project proposals do not clearly demonstrate why public sector involvement is called for. Third, many project proposals do not explicitly state why a particular project design or modality is adopted. Many projects propose specific interventions without any indication that other possibilities have been considered.

A primary factor in the analytical weakness of project rationale and analysis of alternatives seems to be the lack of prior and critical analysis of problems and their underlying causes, which is in sharp contrast to the recommendations of ADB's education policy. As has been discussed, sector analysis is an essential step to identify key problems, their causes and effects, and the basic rationale for a project and its objective. Project-level appraisal, in turn, helps revalidate the project rationale and assessment of project feasibility and economic viability. In a sense, project appraisal is preconditioned on the choice of a particular operation. The emphasis on the issue of sector analysis and project rationale is mainly due to its significance on two counts. First, from a development viewpoint, unless a project has a clear rationale and represents the most effective way of addressing a real problem, its effectiveness is in doubt. Second, from an analytical perspective, a project proposal silent on rationale or alternatives implicitly assumes that it does the right thing, and

in the right way, in the process adding value. *Retro 2004* has questioned this implicit assumption and has attempted to examine critically whether and how projects add value. Articulation of project rationale and consideration of alternatives, which in turn should be based on solid sector work, are critical links in the sequence of economic analysis and constitute the groundwork for subsequent analysis. Focusing on the quality of operations without addressing first the broader issues of project relevance and responsiveness is tantamount to blind targeting.

While *Retro 2004* has focused on the education sector, the research methodologies and findings presented in Chapters 3, 4, and 5 are relevant for a much broader audience. Ultimately the issues discussed are at the core of ADB's poverty reduction agenda. In most DMCs, the dichotomy between the formal and informal sectors is growing rapidly. Unless the bypassed and marginalized are mainstreamed, and urgently, the social and political instability resulting from this growing inequality may undermine the very sustainability of the growth and development process. The provision of education, health, and other social infrastructure services to empower the bypassed and marginalized to participate in, and benefit from, the opportunities of growth is, therefore, a political and social imperative. Yet governments, laboring under growing budget deficits that are compounded by huge leakages, are in a quandary on what to do. *Retro 2004* has focused on these important human development goals and has sought to analyze the underlying causes of poor service delivery performance.

One of the key messages emphasized in *Retro 2004* is that ADB, as a regional development bank, should invest more in ESW. One reason why this has not

been done is the question of costs. According to the World Bank PER Guidelines,⁴⁵ the cost of a PER report can vary from \$50,000 to \$350,000. The average cost of a report that covers the standard topics—analysis of the level and composition of the budget with detailed assessments of at least two major sectors—is likely to be around \$250,000. As for survey work, the first PETS in Uganda, for example, cost \$60,000 for the education sector and \$100,000 for the health sector. There seems to be a common perception among ADB staff that lack of resources is a binding constraint to generating quality ESW. Yet ADB has a significant amount of resources to undertake such work. For example, the amount of TA spent in the sector over the past 3 years was certainly not negligible.⁴⁶ Yet the money was spread too thinly over too many tasks, precluding more in-depth analysis of particular topics of interest. There is a need to better rationalize the use of TA resources.

Another area of concern is the potential trade-off between lending quality and volume, in the sense that shifting resources from project preparation work to ESW may reduce overall lending levels. There are, though, several counterarguments to this point. First, a higher level of ESW should reduce the need for preparation resources, because as a result of ESW the basic project rationale will be on a much firmer footing. Second, by improving the design of projects, ESW should reduce the amount of time allocated to supervision. Third, ESW actually benefits more than one project in a given sector (hence the cost is

spread over several projects). Consequently, there is a need to increase the level of Management attention to ESW activities within ADB. This may help generate the required incentives for staff to pursue such activities. From ADB's perspective, the benefits of ESW are clear. It can help diagnose problems in the service delivery chain more rigorously, help analysts understand the underlying causes of these problems, and design more effective interventions. Besides providing such support to operations, good ESW can do much more: it can enable ADB to take a view on whether or not the mainstreaming of bypassed people and regions is feasible in a broad sense. Ultimately, it can help ensure that ADB remains a relevant, responsive, and effective development partner for its DMCs.

Chapters 3, 4, and 5 provided some insights on potential areas of interest for future ESW. For example, to diagnose institutional and incentive problems, microsveys are often necessary to adequately assess both the quality and quantity of services provided, and the complexities involved in transforming budgets into actual services. The generation of such kinds of data also allows analysts to track inputs, activities, outputs, outcomes, and impacts and, therefore, should allow the benchmarking of progress (or lack thereof) throughout a project cycle (from design to processing to implementation to completion and even beyond). This is critical to measure and ultimately to improve ADB's development effectiveness.

⁴⁵ World Bank. 2001. Public Sector Group. Poverty Reduction and Management Network. "Guidelines for the World Bank's Work on Public Expenditure Analysis and Support (including PERs)." March.

⁴⁶ ADB approved 53 TAs for a total of \$2.9 million over 2002–2004 in the education sector. Over this period, the ratio of the number of TAs to loans was 2.5. In volume terms, the ratio was 0.032. The average of an ADTA was \$375,000, while that of a PPTA was \$520,000.