

Chapter 3

ECONOMIC ANALYSIS IN COUNTRY STRATEGIES AND PROGRAMS



A. CSPs APPROVED IN 2004 AND 2005

During 2004–2005, ADB prepared and approved CSPs for six DMCs. These countries represent a diverse group, with per capita annual income ranging from \$270 for Nepal to more than \$1,000 for the Philippines; and with populations ranging from 0.8 million for Bhutan to 135 million for Bangladesh. They cover four of the five ADB regional departments at the time¹ and fall under the full range of classifications for Asian Development Fund (ADF) eligibility. Table 3 provides a basic background on the six DMCs.

The Nepal CSP, finalized in September 2004, was a pilot for the CSP results-based approach.² The Cambodia CSP was the first joint CSP, built upon active collaboration between ADB, the United Kingdom’s Department for International Development (DFID), and the World Bank. The CSP shared some parts of the text with the World Bank’s country assistance strategy and many of the country assessments were done jointly. The Bangladesh CSP was also a joint effort of ADB, DFID, Japan Bank for International Cooperation, and the World Bank. Resident mission staff played major roles in preparing the six CSPs

Table 3. Background Information on DMCs Covered by the Six CSPs

Country	Population (million)	Annual GDP per Capita (current \$)	Poverty Rate (%)	GDP Growth (%)	Annual ADB Assistance during the CSP Period (\$ million)	ADF Eligibility
Bangladesh	135.2	418	49.8	6.3	305.0	ADF/OCR mix
Bhutan	0.8	775	25.3	6.8	33.4	ADF loan
Cambodia	13.1	296	35.9	5.2	55.5	ADF loans/grant
Mongolia	2.5	606	36.1	10.5	30.2	ADF loan
Nepal	24.8	271	42.0	3.6	121.0	ADF loan
Philippines	76.5	1043	24.7	6.1	573.4	OCR

ADF means Asian Development Fund; OCR means ordinary capital resources; GDP means gross domestic product.

Note: Data refer to the latest statistics reported in the CSPs.

Source: Compiled by ERD staff.

² A results-based CSP is designed to improve development effectiveness and impact of ADB operations in a DMC in a sustainable manner through better managing for development results. Specifically, a results-based CSP will (i) identify the “CSP outcomes” that are expected to be achieved during the CSP period and (ii) provide a mechanism and indicators for monitoring the progress toward achievement of the intended successful outcomes (see ADB 2005d).

¹ The five regional departments prior to the June 2006 realignment.

with varying levels of inputs from Headquarters-based staff. The only exception was Bhutan, where preparatory work was done at ADB Headquarters.

Most of these CSPs followed ADB’s prescribed template, with the exception of the Philippines CSP. A CSP following ADB’s prescribed template comprises six parts: (i) current development trends and issues, (ii) government development strategy, (iii) ADB’s development experience, (iv) ADB strategy, (v) ADB assistance program, and (vi) risks and performance monitoring and evaluation. Each part is supplemented by appendixes that provide additional information and analysis. The Philippines CSP adopted a format different from this template, notably in the presentation of the country assessment.

The rest of this chapter is organized into six parts. Part B summarizes results of ratings of the five attributes of economic analysis of CSPs. Part C assesses the quality of country diagnoses consisting of economic, thematic, and sector assessments. Part D assesses the quality of assessments on government development plans. Part E examines assessments on ADB’s past performance in assisting DMCs. Part F assesses ADB assistance strategies. Lastly, Part G assesses ADB assistance programs. As shown in Table 1, the five cascading components, to be assessed in Parts B–G, plus donor coordination—also important but not assessed in this retrospective—enable ADB, in partnership with DMCs, to make informed choices on the thrust and composition of its assistance and operations.

B. SUMMARY OF RATINGS

About three quarters of the attributes of economic analysis for the six CSPs as a whole were rated “partially satisfactory” on average. Ratings of the five attributes of economic analysis show that the overall quality of economic analysis in the CSPs reviewed needs major improvement in a number of areas (Table 4). About three quarters of the attributes were rated as “partially satisfactory (PS)” on average for the six CSPs as a whole, and only one quarter was rated as “generally satisfactory (GS)” or “fully satisfactory (FS).” Across the five attributes, the assessment on ADB’s past performance had the highest mean score (2.7), followed by assistance strategy and program (both at 2.3), and country assessment and assessment on government development plan (both at 2.2). A review of each attribute is discussed below.

C. COUNTRY ASSESSMENT: DIAGNOSIS

The majority of economic, thematic, and sector assessments in the six CSPs involved desk reviews of previous studies, but a large number did not document the sources. Doing a thorough country diagnosis is a key requirement for preparing a CSP. ADB’s CSP guidelines require the country diagnosis to cover economic growth, poverty, cross-cutting thematic issues—gender equality, governance and institutions, environmental sustainability, private sector development, regional cooperation—and performance of key sectors. Retro 2005 found that

Table 4. Rating Distribution by Attribute of Economic Analysis—CSPs

Attribute	Number of CSPs Rated as				Mean Score
	US (1)	PS (2)	GS (3)	FS (4)	
Country Assessment	0	5	1	0	2.2
Government Development Plan	0	5	1	0	2.2
ADB’s Past Performance	0	3	2	1	2.7
Assistance Strategy	0	5	0	1	2.3
Assistance Program	0	5	0	1	2.3

US means unsatisfactory scored at 1; PS means partially satisfactory scored at 2; GS means generally satisfactory scored at 3; and FS means fully satisfactory scored at 4.

Note: Mean score is the simple arithmetic average of individual scores. Country assessment includes economic, poverty, sector, and thematic assessments.

Source: ERD staff estimates.

different approaches were adopted in preparing the country assessments across the six CSPs (Table 5). Out of a total of 42 economic and thematic assessments in the six CSPs reviewed by ERD, 18 (43%) were supported by stand-alone studies that were consequently published either online or in print; five (12%) were supported by stand-alone but publicly unavailable studies; 12 (28%) involved desk reviews of previous studies by ADB or other development partners with sources properly documented; and seven (17%) involved desk reviews of previous studies with sources undocumented. Of a total of 34 sector assessments reviewed by ERD, 32 (94%) involved desk reviews of previous studies. Half of these documented sources of previous studies and the rest did not.

In ERD’s view, if an assessment involves desk reviews of previous studies by ADB or other development partners, it is a good practice to properly document their sources in CSPs. If an assessment is supported by a stand-alone, in-depth study, it is a good practice to publish the study as the external publication will be a disciplining/incentive device for ensuring quality. Moreover, external publications of quality knowledge products are important public goods that ADB should offer to DMCs as part of its commitment to be a premier financial and knowledge intermediary in the region. In this regard, the Philippines CSP is a good example of publishing stand-alone studies to support most economic and thematic assessments.

Despite the central importance of understanding the growth process, growth assessments were among the weakest areas of country diagnoses. Economic growth is the most important means of achieving

ADB’s overarching goal of poverty reduction in Asia and the Pacific. Understanding the drivers and binding constraints to growth is essential for providing relevant and responsive assistance to DMCs. A CSP growth assessment should at least answer the following questions: (i) How did the economy perform in recent years and what were the underlying factors driving the performance? (ii) How effective was government macroeconomic management in supporting growth and what are the policy issues for maintaining macroeconomic stability? (iii) What are the country’s growth prospects and, most important, the binding constraints to growth? Judged against these, there is significant room for improvement in growth assessments in most CSPs. This is detailed below.

- (i) Analysis of growth performance should highlight more clearly the key drivers of past growth. Among the five CSPs that followed the official template, only the Bhutan CSP contains an appendix on the sources of growth, providing a detailed analysis of the key drivers of growth. The others assessed growth only in the main text. The Cambodia CSP provided brief but clear discussions of growth performance. In the other three, the analysis was weaker with the key drivers of growth not clearly identified. Results of analyzing growth performance using analytical techniques such as benchmarking with peers or growth accounting of sector contributions (agriculture, industry, and services) and functional contributions (capital, labor, and total factor productivity) were not commonly presented. The Philippines CSP, which follows a format different from the official template, did not discuss recent growth performance at all.

Table 5. Alternative Approaches to Preparatory Country Assessments

Type of Assessment	Economic and Thematic		Sector	
	Number	Percent	Number	Percent
Stand-alone Study, Published	18	43	1	3
Stand-alone Study, Not Publicly Available	5	12	1	3
Review of Other Studies, Sources Cited	12	28	16	47
Review of Other Studies, Sources Not Cited	7	17	16	47
Total	42	100	34	100

Sources: ERD staff; compiled from CSPs; ADB website; and inputs from Bangladesh Resident Mission, Cambodia Resident Mission, Mongolia Resident Mission, Nepal Resident Mission, Philippines Country Office, and South Asia Department.

- (ii) Analysis of macroeconomic management should be more forward-looking. All the CSPs except Mongolia reviewed and discussed macroeconomic management issues when assessing growth. Assessments typically involved reviewing trends in inflation, money supply, government revenue performance, fiscal deficits, and external payments positions. The Bangladesh and Nepal CSPs also assessed the efficacy of government fiscal policies. However, the analysis of macroeconomic management and policies would be more relevant in the context of a CSP if it were more forward-looking and if the challenges in maintaining monetary stability and debt sustainability were highlighted more clearly and linked to the analysis of growth constraints.
- (iii) The lack of systematic analysis of binding constraints to growth was the most serious weakness in growth assessments. Growth assessments should assess growth prospects and, most importantly, the binding constraints to growth. Some CSPs provided growth projections, but most were based on growth targets found in government development plans. However, a greater concern was the lack of systematic analysis of the binding constraints to growth in many CSPs. In this regard, the Philippines CSP was unique in that it identified six binding constraints based on a country economic review and detailed analysis of findings in other economic and thematic studies. The Bhutan CSP provided discussions on constraints to growth in both the main text and appendix. In the other four, constraints to growth were only listed with limited analysis, or not highlighted when assessing growth.

Poverty assessments were generally more comprehensive than growth assessments, but there were also notable deficiencies. Poverty reduction is ADB's overarching objective, and development effectiveness requires a good understanding of poverty at the country level. Poverty assessment plays an important role in CSPs for guiding ADB operations. Overall, poverty assessments were more comprehensive than those for economic growth. This could be explained partly by the fact that a poverty assessment is mandatory under ADB's existing business process. The issuance of ADB's Interim Staff Guidelines for Poverty and Social Analysis in Projects

in December 2004 may have also had some effect. But there were also notable deficiencies in poverty assessments. Among the six, poverty assessments in the Bangladesh, Bhutan, and Philippines CSPs were supported by stand-alone, comprehensive poverty studies, and the Philippines study was published.³ Reviews of poverty assessments in the six CSPs indicate the following deficiencies.

- (i) Some assessments did not examine trends in poverty reduction and did not critically assess the effectiveness of public policies or how the policies contributed to poverty reduction. The failure to examine poverty trends may be attributed to difficulties in comparing trends based on different poverty incidences estimated at different times. The data and methodology limitations were recognized in CSPs for Bhutan, Mongolia, and Nepal, and these pointed to a need for more ADB assistance in poverty estimations. In cases where there was a discussion of trends in income and nonincome poverty indicators, analysis of factors underlying the trends was weak. Many CSPs did not critically assess the effectiveness of public policies or how the policies contributed to the poverty reduction.
- (ii) Causes of poverty and constraints to poverty reduction were often not well analyzed. A good understanding of causes of poverty is a precondition for identifying constraints to poverty reduction and designing appropriate interventions. Poverty can be caused by a lack of economic opportunities due to poor growth, the inability of individuals to participate in the growth process, and/or the absence of effective and adequate social safety nets. Overall, poverty assessments in these CSPs focused more on the inability of the poor to participate in the growth process due to lack of skills, landlessness, or physical constraints such as remoteness and poor transport. The analysis of institutional constraints and social safety nets was weaker. Some CSPs listed slow growth and the narrow growth base as a cause and constraint. However, the underlying reasons were not well articulated. As noted earlier, the constraints to growth were not well analyzed in many growth assessments. Among the six, poverty analysis in the Mongolia CSP was better than the others as it discussed

³ At the time this Retro 2005 was prepared.

sources of poverty and constraints to poverty reduction, including labor market conditions and how these affected the poor.

- (iii) Analysis of income inequality was generally poor. Although many CSPs provided measures of income inequality using indicators such as the Gini coefficient, there was usually only limited analysis of its causes and how it contributed to poverty.

A key weakness of many sector assessments was the lack of in-depth analysis of sector constraints. Sector assessments are key inputs in ADB's formulation of strategies and programs for DMCs. As part of a country diagnosis, sector assessments should provide analyses of recent trends in performance and the constraints faced by the sectors concerned. These analyses should provide a basis for the recommendations for ADB priorities, forms, and sequences of interventions in each sector. While the Philippines CSP did not summarize sector assessments, the other five CSPs all provided sector assessments in appendixes. Each assessment typically comprised a sector profile and a discussion of sector performance, key sector issues, government development strategy, ADB experience, activities of development partners, ADB strategy, implementation and monitoring, and a sector road map. A sector road map usually outlines a 10–15 year development plan for the sector, including outcomes, outputs, issues and constraints, policy and institutional reforms, and a list of investment projects. A key weakness of many sector assessments was the lack of in-depth analysis of sector constraints, as evidenced below.

- (i) Certain types of key sector constraints were often not examined. The most frequently cited sector constraints in the CSPs reviewed were weak institutional capacity and inadequate funding for investment. A DMC's technological capability, effectiveness of the policy and regulatory framework, governance issues, incentive and information problems, and private sector capacity were often not examined.
- (ii) When sector constraints were identified, there was often limited analysis to support conclusions or recommendations. For instance, the Mongolia CSP identified weak institutional capacity as one of the constraints in the transport, education, and

health sectors, but there were no discussions of how it had constrained the development of these sectors or how the institutional capacity should be strengthened. The CSP also identified limited private sector participation as a constraint in the transport sector. Again, there was no analysis of the underlying reasons and causes or how private sector participation could be promoted in the sector. Almost all sector assessments in the CSPs reviewed identified inadequate funding as a constraint, but few provided information on total sector funding needs, government fiscal capacities, private sector financing contributions, or gaps to be funded by external donors.

- (iii) In some cases, symptoms of problems were mixed with constraints. For instance, the Mongolia CSP identified the main constraints in agriculture as (a) subsistence orientation; (b) natural resource degradation and high risk; (c) inadequate public service provision; (d) low resource base of agricultural households, limited skills, and high risks; and (e) inappropriate approach to agriculture and rural development. Some of these appear to be more of symptoms of problems than root causes or constraints at this level of analysis, because they did not directly point to either market failures or government failures (see Box). The education sector assessment in the Bangladesh CSP provided a good example of identifying problems and constraints. It differentiated sector issues (symptoms) such as low quality, restricted access, and limited absorptive capacity from sector constraints (root causes) of weak policy, the lack of a regulatory framework, weak planning and management capacity, and a lack of interdepartmental coordination.

Most cross-cutting thematic assessments summarized in the CSPs were based on more in-depth, stand-alone reports. ADB has strategic interests in several cross-cutting issues, particularly governance and institutional capacity, gender equality, private sector development, environmental sustainability, and regional cooperation. In fact, assessments on some of these issues are mandatory. In most CSPs, these issues were assessed in the main text and supported by more detailed expositions in appendixes. Most assessments followed a uniform format, covering topics that included key issues and challenges or constraints, government strategy, ADB

experience, activities of other development partners, and ADB strategy. Some assessments on gender and governance discussed sector-specific gender or governance issues (in the Bhutan and Cambodia CSPs for the former and Bangladesh and Bhutan CSPs for the latter). Most of these assessments were based on stand-alone studies prepared by ADB, or jointly by ADB and the World Bank, or by the government with ADB support.

A key weakness of many cross-cutting thematic assessments was the inadequate analysis of whether and how the problems identified constrained growth and poverty reduction. The reason ADB emphasizes cross-cutting thematic issues is twofold. First, some—such as good governance, gender equality, and environmental sustainability—have “intrinsic value” as they can be ends in themselves. Second, these thematic issues have “instrumental value” as they can be an important means to achieve inclusive economic growth and poverty reduction in the country. The analysis of the latter aspect was weak in many cross-cutting thematic assessments.

Among the five cross-cutting thematic issues, assessments of regional cooperation and the private sector appear to be weaker. Overall, there was little or no analysis of shared regional problems or their causes in assessments of regional cooperation in many CSPs. Assessments often focused on the need to tap locational advantages. These confined assessments to national agendas and priorities, and often ignored potential collective actions in producing regional or subregional public goods and services. The analyses of regional cooperation would be improved considerably if factors that trigger cooperation—and the search for common opportunities and solutions—were discussed. In the case of private sector development, assessments of factors that impede private sector development were often weak.

A further problem of country diagnoses in the CSPs reviewed is that economic, thematic, and sector assessments were carried out and presented in a fragmented manner, making it difficult to tell a coherent development story of the DMC concerned. There is also significant room for improving CSP presentations for better clarity, logical flow, and readability. Under existing CSP guidelines and using the prescribed CSP template, economic growth, poverty, cross-cutting thematic issues, and sector performance were assessed under separate headings.

The way these assessments were presented in the CSP makes the country diagnosis appear disjoint, lacking a cohesive analytical framework. The fact that different groups were often involved in producing various assessments without adequate consolidation and coordination may have also contributed to this fragmentation.

D. ASSESSING GOVERNMENT DEVELOPMENT STRATEGIES

Assessing government development strategies received significant attention in all the six CSPs, but the assessments could be improved in several areas. ADB assistance needs to be aligned with a government’s development strategy and to complement its development program. Therefore, a critical assessment of the government strategy is an important step in the preparation of CSPs. A government strategy assessment should clearly highlight key ingredients of the medium- and long-term development plan or national poverty reduction strategy (NPRS), including development challenges and constraints, strategy, and program. More importantly, a CSP should assess whether (i) these key ingredients are consistent with ADB’s own country diagnosis and institutional priorities, (ii) the government strategy and program are sound and targeted directly at relaxing binding constraints, and (iii) the plan is feasible in terms of the government’s financial and institutional capacities. The review of the six CSPs suggests that although the government development strategy received significant attention, the assessments could be improved in several areas if judged against these criteria.

The soundness of the government development strategy was assessed in most CSPs. But the weaknesses in country diagnoses outlined above raise concerns over whether these assessments were adequately informed. Development strategies and programs should be targeted directly at relaxing the binding development constraints to achieve maximum development impact. But the weaknesses in country diagnoses—specifically the lack of clear identification of binding constraints—could make it difficult to make an informed assessment of whether a government’s development strategy is sound. Many of the CSPs reviewed provided assessments on the soundness of government development strategies. The Bhutan CSP said that the NPRS provided a sound framework for guiding ADB assistance for

poverty reduction, but it explained that more concrete strategies and action plans would be needed to ensure a credible response to the many constraints and barriers to private sector initiatives. The Nepal CSP stated that the government's development strategy seemed plausible; its 10th Five-Year Plan was built on sound diagnosis and was conceptually sound, but several of its targets appeared ambitious in light of the prevailing security situation and political instability. The Bangladesh CSP indicated that the NPRS was assessed jointly by ADB, DFID, Government of Japan, and the World Bank—with the four partners agreeing that the NPRS had the requisite ingredients of a sound poverty reduction strategy. But without clearly spelling out the binding development constraints, one could question whether these were informed assessments.

A further area for improving the assessment of government development strategies is to examine a strategy's overall feasibility. Many CSPs did not assess a government's institutional capacity for implementing prescribed development plans. In assessing the government's financial capacity, the Bhutan CSP provided a good example by providing detailed information on the resource requirements of the Ninth Five-Year Plan, including planned outlays for capital investment and current expenditure, sector allocations, projected domestic revenues, funding gaps, and expected external assistance and borrowing requirements. A borrowing capacity assessment provided a detailed analysis of the government's debt sustainability. The Nepal CSP identified resource requirements of the 10th Five-Year Plan and the funding gap. However, it did not indicate sector-level funding needs and gaps. The Cambodia CSP did not assess the feasibility of the development targets because the government's Rectangular Strategy did not estimate resource requirements. In the Bangladesh and Mongolia CSPs, there was no discussion of resource requirements or a financing plan, and there were no assessments of the fiscal feasibility of government development plans.

E. ASSESSING ADB'S PAST PERFORMANCE

Assessments on ADB's past performance in assisting DMCs should strengthen analysis of lessons learned and problems ADB encountered at the sector level. ADB has been a major donor for many years in the six DMCs for which CSPs were

prepared, and in some sectors, it has been the lead agency. Assessing the performance of ADB's past assistance and identifying lessons learned provide insights into what worked and needs to be continued, and what did not work and should be discontinued. Most CSPs drew on findings from country assistance performance evaluations (CAPEs) of the Operations Evaluation Department regarding lessons learned and recommendations for future operations. Because these findings were mainly described at an aggregate level in CSPs, they were insufficient to determine what had worked and should be continued, and what had failed and should be discontinued. Discussions of ADB sector experience in many of the sector assessments focused largely on what ADB provided, and paid inadequate attention to what problems ADB encountered or the challenges it faced.

In assessing the impact of ADB's past assistance, the CSPs mostly focused on lending volumes, number of projects, and project performance ratings, not on development outcomes and impacts. Although it is not easy to isolate the impact of ADB assistance from those of efforts of the government and other development partners at a broad country level, it would be useful if some measures of development results directly attributed to ADB assistance could be provided—in addition to lending volumes, number of projects, and project performance ratings—to better assess the role and impact of ADB in key areas of operations. For instance, the Nepal CSP indicated that a hydroelectric project supported by ADB provided 27% of the country's current total generating capacity. This is certainly a more useful way of indicating the role ADB played in the sector than simply providing information in terms of input indicators. As much as possible, assessments on ADB's past performance should provide indicators of outputs, outcomes, and impacts.

Overall, among the six CSPs, the Philippines CSP did a better job in assessing ADB's past performance. The Philippines CSP began with a short but clear summary of ADB's changing pattern of lending volume and modalities and the factors underlying the changes. It assessed the overall appropriateness of past assistance strategies and identified major causes for the below-target outcomes on the basis of CAPE findings. The CSP then reviewed ADB experience in some key operational areas and, in each of these areas, highlighted ADB's role against that of other donors; ADB's major achievements in

investing and advising on policy and reforms and their importance to the country and government; problems encountered; and lessons learned. The CSP discussion thus provided a clear picture of the role of ADB assistance in the Philippines in areas where it was operating and the challenges faced.

F. ADB ASSISTANCE STRATEGY

There were some notable deficiencies in articulating ADB assistance strategies in some CSPs reviewed.

A sound assistance strategy should be closely linked with a country's key development challenges and targeted at addressing its binding development constraints. It should also be aligned, to the extent possible, with a government's development plan and priorities. Furthermore, it should be structured based on lessons learned from ADB's development experience to ensure that past mistakes would not be repeated, and in close coordination with other aid agencies to ensure that ADB adds value and avoids duplication. The assistance strategy should be articulated by bringing together findings from earlier diagnoses and assessments. Strategy formulation then involves making a number of choices, most importantly, strategic focuses, and sector and thematic areas for intervention. Judged against these, the following were some notable deficiencies in articulating assistance strategies in some CSPs reviewed (Table 6).

(i) There was a lack of clear identification and explanation of the binding development constraints when articulating assistance strategies in some CSPs. What binding development constraints are for a particular DMC depends on the level of analysis. In the context of a CSP, at an aggregate level, if poverty reduction is the overarching development goal, and broad-based economic growth and inclusive social development are identified as key development challenges, binding constraints are those inhibiting DMCs from achieving the goal and addressing the challenges, due to market or government failures. The Philippines CSP made a serious attempt to identify binding development constraints, and clearly spelled them out: fiscal imbalance, weak investment climate, inadequate infrastructure, weak institutional capacity, poor asset management, and geographical

inequality.⁴ The picture for the other five CSPs was more mixed. One problem was that many constraints identified would be considered more as symptoms, in fact, than causes of economic illness: inadequate and narrowly based growth in the Cambodia CSP; a narrow economic base in the Bhutan CSP; social exclusion in the Nepal CSP; and low and unstable rural income in the Mongolia CSP. In the context of a CSP, binding constraints should be of a sector or thematic nature, should be causes rather than symptoms of economic illness, and should directly indicate whether they were due to market or government failures (see Box). Another problem was that, when constraints were discussed, too many of them were often listed without prioritizing, thus limiting their usefulness as a guide for ADB operational planning. The Mongolia CSP, for example, identified eight constraints. The Philippines CSP identified six.

(ii) There was no clear demonstration of the linkages between the strategic focus of ADB assistance and binding development constraints in the countries concerned in many CSPs. The Philippines CSP assistance strategy focused on assisting the government to address the two most binding constraints: fiscal imbalance and weak investment climate. For many of the other five CSPs, however, partly due to the inadequacy in identifying binding constraints, the linkages between the strategic focus chosen for ADB's country assistance strategies and country-specific binding development constraints were not clearly demonstrated. This raises questions of whether the assistance strategies of these CSPs were sufficiently focused, whether they adequately differentiated the most urgent needs of each country (tailored to cater for country specificities), and whether they have a sound basis for generating maximum development impacts in light of the limited ADB resources available to these DMCs.

The weaknesses in country diagnoses and deficiencies in articulating assistance strategies make it difficult to judge whether the sector and thematic areas selected for ADB intervention were targeting the most urgent needs of the countries concerned.

⁴ Although it can be argued that geographical inequality is more a symptom than a constraint to poverty reduction at this level of analysis.

Table 6. Summary of Key Elements of Assistance Strategies in the Six CSPs

	Bangladesh	Bhutan	Cambodia
Development Goals and Challenges	<p>Poverty reduction through:</p> <ul style="list-style-type: none"> • Accelerating economic growth • Fostering social development • Reforming institutions 	<p>Goal: poverty reduction through economic diversification</p> <p>Challenges and constraints:</p> <ul style="list-style-type: none"> • Remoteness and geographical isolation • Narrow economic base • Shallow/uncompetitive financial sector • Shallow and policy-constrained private sector 	<p>Poverty reduction through:</p> <ul style="list-style-type: none"> • Increasing opportunities for economic advancement • Improving livelihood and reducing vulnerability, and facilitating participatory governance at all levels
Development Constraints	<ul style="list-style-type: none"> • Not clearly specified in articulating assistance strategy 	<ul style="list-style-type: none"> • Insufficient urban infrastructure • Growing number of educated, unemployed youth • Weak private sector capacity to tap national and regional market opportunities 	<ul style="list-style-type: none"> • Inadequate and narrowly based economic growth • Limited access to and poor quality of social services • Lack of access to land and natural resources • Social exclusion • Poor governance and endemic corruption
Strategic Focus	<ul style="list-style-type: none"> • Sustainable economic growth by improving the investment climate • Social development • Good governance 	<ul style="list-style-type: none"> • Investment and sector operations: pro-poor economic growth, social development, good governance • Capacity development • Effective donor coordination 	<ul style="list-style-type: none"> • Broad-based economic growth • Inclusive social development • Good governance
Sector and Thematic Areas for ADB Intervention	<ul style="list-style-type: none"> • Sectors: agriculture, transport, energy, finance (including small and medium enterprises), education, urban development, health • Thematic areas: governance, private sector development, gender, disaster mitigation, regional cooperation 	<ul style="list-style-type: none"> • Sectors: transport, energy, finance, private sector development, urban development • Thematic areas: governance, gender, environment, regional cooperation 	<ul style="list-style-type: none"> • Sectors: transport, power, finance, tourism, agriculture and water resources, education • Thematic areas: private sector development, gender, environment, governance
	Mongolia	Nepal	Philippines
Development Goals and Challenges	<ul style="list-style-type: none"> • Stable, broad-based, economic growth • Inclusive social development 	<p>Poverty reduction and conflict reduction through:</p> <ul style="list-style-type: none"> • Broad-based economic growth • Inclusive social development • Good governance 	<ul style="list-style-type: none"> • Freedom from persistent, pervasive, and intense poverty
Development Constraints	<ul style="list-style-type: none"> • Inefficient allocation of financial resources • Low agricultural productivity • Widely dispersed population, geographical isolation • Human resource constraints to productivity growth • Limited access to capital • Unemployment • Limited job opportunities for unskilled workers; poor access to education • Limited access of services to poor and remote population 	<ul style="list-style-type: none"> • Rural/urban and regional/ecological divide • Lack of employment opportunity • Social exclusion • Conflict and political instability • Weak implementation, enforcement and institutional capacity, over-centralization, corruption 	<ul style="list-style-type: none"> • Fiscal imbalance • Weak investment climate • Inadequate infrastructure • Weak institutional capacity • Geographical inequality • Poor asset management
Strategic Focus	<ul style="list-style-type: none"> • Stable, broad-based economic growth • Inclusive social development 	<ul style="list-style-type: none"> • Broad-based economic growth • Inclusive social development • Good governance 	<ul style="list-style-type: none"> • Supporting fiscal consolidation • Improving investment climate
ADB Sector and Thematic Areas	<ul style="list-style-type: none"> • Sectors: finance, agriculture, transport, education, health, urban development • Thematic areas: governance, gender, private sector development, administrative consolidation 	<ul style="list-style-type: none"> • Sectors: transport and communications; agriculture and rural development; finance and private sector development; energy; regional development; education; water supply, sanitation and urban development; social protection • Thematic areas: governance, gender, private sector development, regional cooperation 	<ul style="list-style-type: none"> • Sectors: power, health, agriculture and natural resources, urban development, water supply and environmental management, finance and trade, transport • Thematic areas: governance (local government and judicial reforms)

Source: Compiled by ERD staff based on the six CSPs reviewed.

An important step in formulating ADB's country assistance strategy is to select sectors and thematic areas for intervention. In addition to the country diagnosis, this requires considering government development plans, lessons learned from ADB's past experience, ADB's value-added compared with that of other donors, and ADB's institutional priorities and policies. For the Philippines CSP, the selection of sectors and thematic areas for interventions was drawn from the government's poverty reduction strategy with filters from the ADB country strategy. The CSP, therefore, clearly established linkages between (i) strategic focus, (ii) sector and thematic interventions of ADB assistance, and (iii) binding constraints. For some of the other five CSPs, such linkages were not clearly demonstrated.

G. ADB ASSISTANCE PROGRAM

A well-articulated assistance program should state clearly (i) ADB's overall financial commitment and financing sources; (ii) issues and binding constraints for each of the selected sectors, thematic areas, and the desired sequences to relax these constraints; (iii) general approaches to selecting operational instruments and lending modalities, considering lessons learned from past experience; and (iv) a list of planned projects and TAs designed to relax the sector-specific binding constraints, including project rationale, financing size, and modality. Judged against these criteria, there were several notable weaknesses in articulating assistance programs in some of the CSPs reviewed.

In some CSPs, sector constraints were not clearly defined in articulating assistance programs, making it difficult to assess the economic rationale of proposed interventions. The issue of sequentially relaxing binding constraints was often not highlighted. The articulation of assistance programs mostly focused on ADB strategies and what ADB planned to do in each sector, ignoring sector-specific constraints. In the Mongolia CSP, for example, emphasis was on country-wide rather than sector-level constraints. The weak discussions on sector constraints in the articulation of assistance programs make it difficult to establish the economic rationale for planned interventions. Because constraints were often not discussed, the sequence required to relax constraints was also absent.

Not all the CSPs adequately discussed the general approach to the selection of operational instruments and lending modalities. This may have something to do with the inadequate analysis of sector constraints, because the type of instruments should be linked to the nature of targets (binding constraints). For example, if the binding constraint is institutional or informational issues, a TA might be the most appropriate instrument of intervention. If the binding constraint is a lack of incentive, policy-based program loans should be considered. Sector or project loans are more appropriate for investment-type binding constraints.

Another weakness in the articulation of assistance programs was that details of planned projects or programs usually were not clearly spelled out, making assistance programs appear to be disconnected from the pipelines of planned interventions. All the CSPs provided lists of pipeline TAs, projects, and programs for the CSP period. Concept papers for the pipeline interventions were also included as appendixes. But in many cases, these proposed interventions were not discussed when articulating assistance programs. This was coupled with the lack of discussion on sector constraints, making it difficult to assess the economic rationale of proposed interventions. This could have serious implications for the next stage of ADB's operational cycle, particularly in the preparation of project preparatory technical assistance (PPTAs) and RRP. ERD's past retrospectives (2002, 2003, and 2004) suggested that articulation of economic rationale was one of the weakest areas of project economic analysis in RRP. The inadequate analysis of sector constraints and insufficient details of proposed interventions in pipelines could partly explain this.⁵

Among the six CSPs, the Philippines CSP also provides a good example for articulating an assistance program. It clearly showed the link between strategic objectives and sector intervention and the binding constraints that it aimed to relax, and effectively integrated the discussion of the assistance program with the strategy, with a focus on how strategic objectives would be achieved in partnership with the government. The justification of lending modalities was also clear.

⁵ Retro 2005 also found that the World Bank's Country Assistance Strategy papers provide much more detailed information about pipeline projects.

