

Chapter 1

INTRODUCTION



1.1 BACKGROUND

The Economics and Research Department (ERD) conducts annual retrospective reviews to assess the quality of economic analysis applied in Asian Development Bank (ADB) operations. The aim is to improve the analytical rigor of ADB projects and programs, thereby strengthening their quality-at-entry and achieving greater effectiveness of the aid provided. Retrospective reviews provide a useful platform for sharing knowledge among ADB staff and learning from good and bad practices identified. The reviews also help ERD improve the relevance of its research and analytical work for ADB's operations.

The first three retrospective reviews focused exclusively on the quality of economic analysis contained in investment and program loan proposals (ADB 2003, 2004a, and 2005a), covering the key areas prescribed by ADB's *Guidelines for the Economic Analysis of Projects* (ADB 1997). The fourth retrospective (ADB 2006a) expanded the scope of the review to include country partnership strategy (CPS) papers¹ as a concrete step in shifting the focus of ERD's operations support to earlier stages of ADB's operational cycle. The fourth retrospective, *Retro 2005* (ADB 2006a), identified several areas for improvement of

the economic analysis applied in the CPS papers, including (i) the need for clearer identification of the binding constraints to growth and poverty reduction in a developing member country (DMC); (ii) better demonstration that country assistance strategies and programs are directly targeted at addressing country-specific development constraints; and (iii) more coherent presentation of economic, thematic, and sector assessments in the CPS papers.

The purpose of this fifth retrospective, *Retro 2006*, is to assess the diagnostic quality of economic, thematic, and sector work (ETSW) that underpins the five CPS papers approved in 2006. From a broader perspective, *Retro 2006* responds to the recurrent finding from ERD's routine and earlier retrospective reviews of economic analysis that country- and sector-level diagnostics need to be improved. This retrospective likewise addresses one of the key issues identified by an ADB working group on CPS and business processes—that the strategic quality of CPS papers is uneven and the quality of their underlying assessments varies (ADB 2006b).² Improving the quality of country and sector diagnostics will help improve the relevance and effectiveness of ADB's CPSs and the quality-at-entry of development interventions. The importance of country and sector diagnostics is recognized as well by the Paris

¹ In August 2006, the country strategy and program (CSP) was renamed country partnership strategy (CPS). For purposes of this retrospective, the term CPS will be used even when referring to past CSPs, except when "CSP" is in the title of published documents.

² This finding was identified following a review of CPS papers approved in 2002 to 2004. Underlying assessments referred to include macroeconomic and poverty analyses; thematic assessments (environment, gender, governance and institutions, private sector, and capacity development); and sector diagnostics.

Declaration on Aid Effectiveness (OECD-DAC 2005), as the diagnostics are growing sources of information to governments and development partners on the state of country systems in client countries.

1.2 ECONOMIC, THEMATIC, AND SECTOR WORK AS A DIAGNOSTIC TOOL

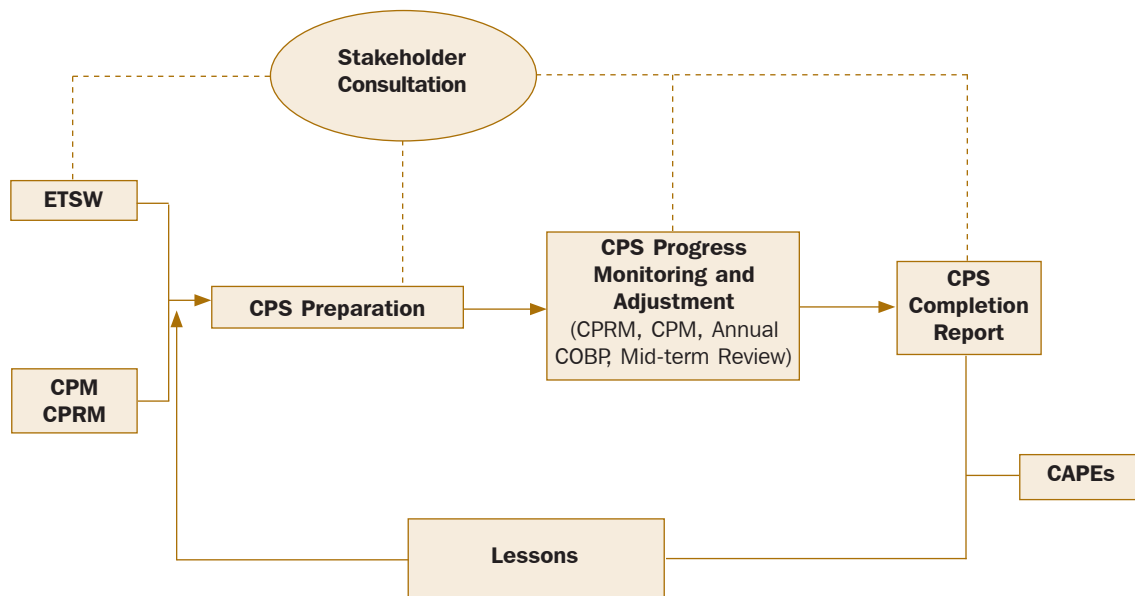
The relevance and effectiveness of ADB operations crucially depend on the institution’s understanding of development issues—both thematic and sectoral—in its DMCs. Such knowledge is partly acquired through deliberate analytical work broadly known as ETSW. Good ETSW should be able to help identify the critical development constraints, and determine the means to sequentially relax the constraints. Results of ETSW should be effectively used to inform the formulation of ADB’s country strategies and the design of its interventions, both at the aggregate and sector levels.

In ADB, ETSW is an important diagnostic tool for CPS preparation. According to the *Country*

Partnership Strategy Guidelines (ADB 2007a), preparing ETSW is the first stage of the CPS cycle, as shown in Figure 1. While the exact scope and process of ETSW may differ from one CPS paper to another, in general, it will involve three steps. The first is “identification and filling of knowledge gaps.” This involves (i) taking stock of available thematic and sector assessments and diagnostics undertaken by the government, ADB, development partners, and/or other sources; (ii) identifying gaps in the availability of up-to-date assessments; and (iii) conducting in-depth assessments on thematic or sector issues in which there are knowledge gaps. The second step is “knowledge absorption/distillation”, in which ETSW results are summarized and distilled into a CPS paper. The third step is “knowledge utilization”, where country strategy and sector operations are formulated during the CPS process, based on findings distilled from the ETSW.

In this three-step process, however, knowledge could be lost from one step to the next. The quality of a CPS may be compromised if knowledge gaps are inadequately filled or knowledge is inadequately

Figure 1. Country Partnership Strategy Cycle



CAPE = Country Assistance Program Evaluation, COBP = Country Operations Business Plan, CPM = Country Programming Mission, CPRM = Country Portfolio Review Mission, ETSW = economic, thematic, and sector work
Source: ADB (2007a).

distilled or underused. This could happen if (i) ETSW is of poor quality; (ii) ETSW is of good quality, but the knowledge is not effectively distilled from ETSW and incorporated into a CPS paper; or (iii) knowledge is not fully translated into country strategies and interventions. *Retro 2006* investigates these possibilities by assessing the quality of ETSW, the distillation of the knowledge from ETSW and its absorption into CPS papers, and the translation of the knowledge into ADB strategies and interventions.

1.3 SCOPE AND METHODOLOGY

Retro 2006 covers the five CPS papers approved in 2006—for Indonesia (INO), the Lao People’s Democratic Republic (LAO), Papua New Guinea (PNG), Uzbekistan (UZB), and Viet Nam (VIE); see Appendix. According to the CPS template, a CPS paper comprises an executive summary, the main text, and a number of appendixes, including thematic assessments and sector road maps. Because the main text needs to cover a wide range of topics,³ but its length is limited to 25 pages, it is supported by appendixes providing analyses of and information on the concerned thematic issues and priority sectors ADB plans to be engaged in. The appendixes are often distilled from more in-depth background studies by ADB, development partners, the government, and/or other sources.

The five CPS papers contain a total of 28 sector road maps and 30 thematic assessments in their appendixes (Table 1). *Retro 2006* reviewed all the sector road maps and 10 thematic assessments, the latter including those on private sector development (LAO, PNG, UZB, and VIE), poverty (INO, LAO, UZB, and VIE), and growth (LAO and PNG).⁴ In addition, *Retro 2006* reviewed 12 in-depth background studies carried out by ADB underpinning the relevant CPS thematic assessments, including three on poverty (INO, UZB, and VIE), four on private

sector development (LAO, PNG, UZB, and VIE),⁵ and five *Asian Development Outlook* (ADO) and *Asian Development Outlook Update* country chapters. The ADO country chapters were reviewed because they contained country growth assessments and were cited by two CPS papers (PNG and VIE); no other in-depth background growth assessments were found.

In addition to the reviews, *Retro 2006* included a survey of CPS country team leaders and a separate survey of team members. The survey aimed to gauge the respondents’ perceptions of the effectiveness of the CPS business process in relation to ETSW and to make the retrospective exercise participatory. The surveys were supplemented by informal interviews with selected country team members. The surveys and interviews focused on issues of resources, staff expertise and incentives, guidelines and procedures, and assistance from support departments related to the preparation of CPS-related ETSW. Team leaders of all five CPS papers responded. Among 96 team members whose names were listed in the CPS papers, 65 (68%) responded.⁶ Of the respondents, 35 indicated that they either primarily drafted parts of the CPS paper (71%) or significantly contributed to it (29%).⁷ The team members’ survey results presented in this report are based on the input of the 35 respondents.

³ Topics include (i) recent development trends, issues, and constraints; (ii) the government development strategy; (iii) development experience of ADB in the concerned DMC; (iv) ADB’s country strategy; and (v) risk and performance monitoring and evaluation.

⁴ The other 19 thematic assessments, covering themes such as gender, environment, governance, and regional cooperation, are not included in the review.

⁵ An in-depth background study on private sector development was also prepared for the Indonesia CPS, but was not listed as a reference in the CPS paper, nor was it reported in the country team survey at the initial stage of this retrospective exercise. Because the study was first brought to ERD’s attention during the interdepartmental review of the draft *Retro 2006*, insufficient time was left for the study to be covered in this retrospective.

⁶ A final e-mail followed up on participants who had not responded to the survey. The e-mail noted that no response would be interpreted to indicate that the team member had not contributed to or only had a minor contribution to the CPS-related ETSW. Subsequently, 31 participants remained as nonrespondents.

⁷ The others indicated that they either had a very minor contribution or did not participate.

Table 1. Sector Road Maps and Thematic Assessments Underpinning the Five CPS Papers

	INO	LAO	PNG	UZB	VIE
Sector Road Maps	<ul style="list-style-type: none"> • Transport • Energy • financial • Urban infrastructure • Education • Health • Agriculture, natural resources, and environment 	<ul style="list-style-type: none"> • Agriculture and natural resources • GMS support for the transport sector • GMS support for the energy sector • Financial sector • Education • Health • Urban water supply and sanitation 	<ul style="list-style-type: none"> • Transport • Health 	<ul style="list-style-type: none"> • Agriculture and rural development • Rural infrastructure: water supply and sanitation • Transport • Early childhood development • Basic education 	<ul style="list-style-type: none"> • Transport • Energy • Financial intermediation • Education • Health • Urban development, water supply and sanitation, and environment • Agriculture, rural development, and natural resources
Thematic Road Maps					
Thematic Assessments	<ul style="list-style-type: none"> • Poverty • Governance and anticorruption • Decentralization: public financial and economic management 	<ul style="list-style-type: none"> • Poverty • Gender • Sources of growth and macroeconomic development • Private sector • Governance • Environment • Lao PDR and the GMS program • Borrowing capacity 	<ul style="list-style-type: none"> • Country economic review • Governance • Gender • Environmental analysis • Public financial management • Private sector development 	<ul style="list-style-type: none"> • Poverty • Environment • Private sector • Gender • Governance 	<ul style="list-style-type: none"> • Poverty • Gender • Governance • Anticorruption measures • Environment • Private sector • Public administration and state-owned enterprise reform • Regional cooperation and integration
Background Studies					
	<ul style="list-style-type: none"> • Poverty • ADO growth chapter • Private sector development 	<ul style="list-style-type: none"> • Private sector development • ADO growth chapter 	<ul style="list-style-type: none"> • Private sector development • ADO growth chapter 	<ul style="list-style-type: none"> • Poverty • Private sector development • ADO growth chapter 	<ul style="list-style-type: none"> • Poverty • Private sector development • ADO growth chapter

ADO = *Asian Development Outlook*, INO = Indonesia, GMS = Greater Mekong Subregion, LAO = Lao People's Democratic Republic, PNG = Papua New Guinea, UZB = Uzbekistan, VIE = Viet Nam

Source: Compiled by the Economics and Research Department

The rest of the report is organized as follows: Chapter 2 examines the diagnostic quality of growth assessments, poverty assessments, private sector development assessments, and various sector road

maps; Chapter 3 presents the results of the survey of staff perceptions about the CPS business process in relation to ETSW; and Chapter 4 summarizes the key findings and provides conclusions.