

Conclusion

ADF VI represented an important break from the earlier replenishments. For the first time, there was a Donors' Report that outlined certain conditions, indicated priorities, and made specific requests. ADB adopted a demanding development agenda in five areas: economic growth, promoting human development, poverty reduction, enhancing the role of WID, and improving the environment. ADB reoriented its operations toward social development in general and poverty reduction in particular, and took steps to enhance its own effectiveness. In ADF VII, ADB expanded this development agenda to include governance among other crosscutting themes.

Replenishment commitments have been highly relevant and timely, encouraging the use of the ADF in meeting new development challenges in the region. The agenda has also been far-reaching and particularly demanding for ADB and its DMCs. Over the past decade, ADB has become a more broad-based development institution with a formal strategic planning process and a clear mandate to pursue poverty reduction. Social and environmental activities have been growing in addition to initiatives supporting good governance, especially after the 1997 Asian financial crisis. Regional cooperation has expanded from TA to projects addressing complex cross-border issues in the greater Mekong region and central Asia. ADB has been restructured to sharpen the country focus of operations.

In general, ADB's compliance with ADF VI–VII commitments has been satisfactory. The quality of compliance has, however, been uneven. The progress in the various areas is discussed below.

Impact of the Strategic Development Objectives

The decision to adopt the project classification system using the SDOs was a major step forward as it focused attention on specific areas in a transparent, monitorable manner. One of the inherent difficulties of using the present SDO approach was that projects needed to be classified as supporting one primary and at most two secondary objectives. In reality, many projects provided support and resources to multiple objectives that were not readily accounted for under the SDO classification system.

One of the biggest changes that can, at least partly, be attributed to the SDOs has been the way projects are designed. During the ADF VI–VII period, ADB became more concerned with developing investments in conjunction with sector policies needed to support the investments. That is, projects became broader and addressed more complex matters, often including components that supported sector reforms. While these efforts are staff intensive, initial results show that projects that address broader sector issues have had greater development impact and a higher probability of sustainability.

Including broader policy dimensions in investment projects has been a challenge for government counterparts and other affected parties that has often required cooperation among different directorates or ministries as well as increased coordination among international agencies and beneficiaries. The result is greater participation of NGOs and other community-based organizations across all sectors. Greater consultation may contribute to more sustainable projects in the long run, but in the short run, it is resource

intensive. Some ongoing issues that have resulted from projects designed to address more complex development issues are deficiencies in government monitoring, weak institutional capacity, and high staff turnover. Despite these issues, overall compliance with the commitments to the SDOs has been satisfactory.

Economic Growth

As noted in the introduction, many ADF recipients grew relatively slowly over the past decade and were vulnerable to external shocks. ADF was a small part of the public finances of most DMCs, and looking for a clear statistical relationship between ADF and changes in GDP would, in most cases, be difficult if not impossible. From the economic analysis of completed projects, the EIRR was on average more than 20%, well above ADB's minimum level of 12%. ADB helped address the principal obstacles to growth, such as weak legal and regulatory frameworks, and lack of private sector involvement and competition, through its program lending modality. Three factors proved to be essential for success: (i) understanding the country context and incorporating lessons learned in subsequent projects, (ii) providing inputs that were critical for growth and development, and (iii) designing projects that supported the government reform strategy.

Human Development

The emphasis in the human development SDO shifted considerably during ADF VI–VII. The reality was that many projects in the beginning of the ADF VI period were not strategically focused on human development, especially a large contingent of municipal works projects. ADB's changing focus from population planning to human development was based in part on the coverage and growing use of a broader definition of human development. Fundamental issues such as expanding human choices by building human capabilities, creating conditions for a long and healthy life, being educated, having access to the resources needed for a decent standard of living, and being able to participate in the life of one's community

were important human development objectives. Therefore, by the end of the period projects with substantial population planning components moved toward a broader human development focus. Projects supported objectives such as access to education, health services, housing, and clean water and sanitation, usually in urban areas. Investments increased in the three main areas of human development projects: education, health, and urban development.

Poverty Reduction

Poverty reduction has been mainstreamed in ADB's operations. Coordination with national poverty strategies improved with the introduction of poverty reduction partnership agreements. ADB has, however, been slow to develop a strategic orientation toward poverty reduction. Therefore, poverty reduction efforts were concentrated in a few sectors. This resulted in some gaps in the reach of ADF-supported poverty reduction projects: (i) no primary poverty reduction project was targeted directly at the urban poor; (ii) 11 of 26 borrowers in ADF VI–VII had no projects that were primarily for poverty reduction; and (iii) ADF VI–VII did not reach the largest populations of poor people, in the PRC and India, comprising about 80% of the poor in the region. Secondary poverty reduction activities showed broader efforts, especially in the social sectors, infrastructure, and special assistance and emergency lending, reflecting the increasing attention to poverty reduction in project design. Of the projects approved during this period, 41% included primary or secondary poverty reduction efforts.

WID/GAD

WID lending was very low during 1992–2000, partly because of the “donor congestion” in this area. It appears that having WID as an SDO and expanding it subsequently into GAD made little difference to the ADF project portfolio. Although sensitivity to gender issues improved, there is little evidence that ADB's portfolio was substantially more favorable to women at the end of ADF VI–VII than it was at the beginning. To mainstream gender issues in

projects, ADB adopted the policy in 1998. There is no adequate empirical basis yet for concluding on the effectiveness of the policy in this report. A full evaluation of its results is scheduled for 2004, 6 years after the policy was adopted. By then, there should be a more solid basis for assessing the impact of the GAD framework.

Environmental Protection and Natural Resource Management

The majority of projects with environmental objectives are still under implementation. In general, ADF primary lending for environmental protection and natural resource management during 1992–2000 was below expectations. ADB supported useful environmental and natural resource management work, but on a small scale. The majority of activity in this area was related to environmental mitigation measures in projects with other SDOs. Identification of major project impacts improved as environmental impact assessments and consultations with affected persons were made mandatory. Among the major reasons for these advances were (i) the strong emphasis given to social and environmental objectives in ADB's MTSF (1995–1998), (ii) increased hiring of new ADB staff with skills in the social and environmental fields, and (iii) formulation of policies that provide guidance for improving the social and environmental design of projects in general. ADB made significant advances in expanding and clarifying its policies for environmental and social concerns.

Program Lending

Programs in the ADF VI period tended to have too many conditions, did not prioritize reforms, and sometimes lacked clear policy objectives. Learning from these early experiences, later programs under ADF VII had a stronger sector focus with program objectives prioritized and more clearly defined. The introduction of the sector development program combining investment components and policy actions has allowed greater flexibility for a more comprehensive reform package.

Some programs were of a high quality, establishing innovative models for reform and addressing some of the pressing issues in the Asian region such as privatization and industrial development, improving governance, and agriculture reform. The Asian and Russian financial crises blunted the impact of some of the program lending as the volatility of capital flows to emerging markets strained DMC fiscal management and the ability to implement difficult reforms. Program lending has had, and will continue to have, high relevance to the needs of DMCs, and the demand for such lending continues to be strong.

Institutional Change

Planning Processes

One area where ADB made the greatest progress as an institution is in the strategic planning processes. The strategic framework that has been implemented directs planning and has articulated clear objectives. These objectives have been translated into country-based strategies in the COS, CAP, and currently, CSP documents. Crosscutting activities have been clearly identified and developed into thematic objectives. In addition, the consultation process has expanded to encompass NGOs and other concerned stakeholders and aid coordination with multilateral and bilateral agencies has improved. The impact of these efforts has been felt in the design and implementation of projects. The result is that the reorientation of the institution has been successfully communicated from the planning and strategy level to the delivery of projects.

Project Quality and Performance

Improving project quality is a continuous, rather than discrete, activity involving careful design and effective ownership at the DMC level. High-quality projects are the result of adopting good processes and procedures, effective monitoring and evaluation, and applying the right incentives for innovation and the pursuit of development impact. In the ADF VI–VII period, project processing systems and procedures within ADB underwent a major overhaul. Changes

were instituted at the entry, processing, and postevaluation levels. There are clear indications that performance of projects implemented over the past 9 years has improved. In line with ADF recommendations, project selection, design, and implementation have become significantly more focused on impact, with more staff efforts directed toward incorporating policy and thematic content.

While ADB is in compliance with the commitments to improving project quality and implementing effective monitoring and evaluation systems, there are longer-term concerns. First, the monitoring and evaluation system has limitations and higher quality inputs are required for it to be effective. Second, designing projects that address complex development needs in addition to the increased demand for knowledge-based and other nonlending products has strained staff resources. Project impact assessments covering social and environmental matters, and nonlending products such as poverty reduction partnership agreements, have become an integral part of ADB activities and are resource intensive. Despite a small jump in 2000, professional staff levels increased only marginally during the ADF VI–VII period. While there have been efforts to recruit staff with more multidimensional expertise, staff resources continue to be stretched to the limits of capacity and the ability to maintain high quality standards may ultimately be hindered. If the present momentum is to be sustained, more resources will be required.

Eligibility, Access, and Graduation

The intention of the ADF country classification system was to establish greater country differentiation and justification for the most needy DMCs to secure access to ADF. The intended impact was a gradual scaling down of the volume of concessional assistance available to DMCs as they progressed from group A to group B (B1 and B2), and finally ADF graduation as they moved to group C. The scaling down of assistance to group B countries has not happened yet, although there is evidence of progression, with DMCs like Indonesia moving from the sixth largest borrower under ADF I–V, to the seventh under ADF VI, and the ninth under ADF VII.

Also, some traditional borrowers such as the Philippines and Thailand, as well as some of the newer borrowers such as Kazakhstan and Uzbekistan, have graduated from ADF and moved to group C.

The graduation policy has been effective in facilitating country progression through ADF to OCR. Further assessments are needed to identify and establish transparent trigger mechanisms for DMC progression and graduation. Evidence is less clear that this policy has been effective in providing the basis for an efficient access and eligibility mechanism to ensure that ADF reaches the poorest in the region.

Resource Allocations by Country

The process of moving to a formal, performance-based ADF allocation system was well under way during the ADF VI–VII period although the policy was officially adopted in 2001. Allocations during the ADF VI–VII period were based on less formal process of assessing DMC needs. Allocations under ADF VII were found to be efficient as they were in line with the indicative allocations under the formula proposed in the performance-based allocation policy. One concern with this policy is that the measures of DMC need—population and per capita income—are not the best proxies for poverty needs. Since poverty reduction is the overarching objective of ADF, the allocation formula may need to be more precisely focused on poverty as well as performance.

Moving Forward

ADB has achieved a great deal over the past decade. It has (i) become a broad-based development institution, (ii) improved the performance of the ADF portfolio, (iii) set forth poverty reduction as its overarching objective, and (iv) continued expanding knowledge products. This is the foundation that replenishment commitments for ADF VI–VII have helped build. The drive to improve development impact and efficiency will continue to challenge ADB in the future and there are important lessons to learn from ADF VI–VII.

Continued improvement in monitoring, measuring, and managing for development effectiveness is needed to address the concern as to whether each intervention funded by ADF is producing the results expected. The process has started, but it has been difficult to achieve high-quality staff compliance with the new project performance management system. The quality of performance indicators needs to be improved to make the system more effective. Further training of ADB staff is required. ADB needs to continue to actively engage counterpart staff in efforts to enhance monitoring capacity and cooperation at the DMC level. Good portfolio management is important for effective management of resources and needs to be at the forefront of ADB's dialogue with DMCs, and in the planning of future country operations. This needs to be done in close consultation with government representatives to enhance the effectiveness and development impact of operations.

ADF resource allocations across DMCs now take into account a wide range of performance and other considerations to increase their effectiveness. The performance-based allocation process introduced in 2001 represents a significant shift in ADB practice. For the first time, a formal link is established between access to concessional funds and country-level performance that is determined based on a set of measurable indicators.

Resource allocations across sectors and thematic areas within a DMC, however, is an area where improvements are both possible and achievable in the short term. The CSP process is ADB's means for determining resource allocation within a country and for specifying expected results. However, to date, there has been a lack of measurable targets and indicators in CSPs and their updates. Also, there has often been a poor linkage between goal statements of individual projects and country strategy. The lack of measurable indicators means it has been difficult to measure performance and to attribute changes in sector or country performance to ADB-financed projects. This, in turn, makes it difficult to quantify the impact of ADB's program.

This is changing. All CSPs and their updates are now moving to incorporate MDGs, but there is a need to go beyond this to make a clearer specification of expected results at the country level and how ADB's program of lending and nonlending products and services will contribute to attaining these. One way of achieving this could be to introduce a country program framework (CPF)¹²⁸, the equivalent of a PF, at the country level. In common with the PF, the CPF would provide (i) a clear goal statement along with indicators and targets based on MDGs; (ii) a purpose statement, also with indicators and targets, which reflects the contribution expected from ADB's program of loans, TAs and other products and services over the CSP period (in quantifiable terms); and (iii) outputs, i.e., the various products and services ADB expects to deliver over the period. Assumptions and risks at each level could usefully be drawn from governance assessments. The CPF would be subject to periodic self-evaluation by regional departments as part of the CSP process, as well as to independent evaluation. This approach would enable the goal of each approved project to be linked to delivering on the CPF purpose. Thus, project-level goal attainment would be assessed at the country level only through the periodic CPF evaluations. Project performance would be assessed only to the purpose level.

Adoption of the CPF would need good analytical work on which to base resource allocation decisions across sectors and thematic areas. Obviously, there are many uncertainties and it is not possible to aspire to an "optimal" allocation of resources. A focused and integrated package of ESW (including sector road maps), evaluation studies, and other assessments (such as private sector and governance assessments), along with an objective assessment of ADB's capacity, would facilitate making sound resource allocation decisions in consultation with the DMCs.