

**MANAGEMENT RESPONSE TO THE PROGRAM/PROJECT PERFORMANCE
EVALUATION REPORT FOR THE FINANCIAL SECTOR PROGRAM AND
INSTITUTIONAL STRENGTHENING OF THE FINANCIAL SECTOR PROJECT
(Loans 1601/1602-KOR)**

On 26 January 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

A. Overall Assessment

1. Management appreciates the fact that OED held detailed discussions on the outcome of the above loans with a number of departments within ADB in preparing its report. We also appreciate that the report highlighted many positive features of the loans, including the quick processing, the validity of the diagnosis, and the strong ownership by the Government.

2. Management agrees that an effective coordination among multilateral financial institutions (MFIs) that would allow information sharing in a transparent manner is essential to prevent overlapping of reform programs supported by MFIs to ensure consistency especially during the time of crisis. We acknowledge that in assisting the Government of Korea to address its 1997–1998 crisis, the three MFIs, namely the International Monetary Fund, the World Bank, and ADB, did not develop a unified reform program. As a result, there was some overlap of ADB's assistance with that of the World Bank, causing implementation delay and change in scope of Loan 1602.

3. We also agree that assistance to address financial sector crisis should not ignore the human cost associated with displaced workers, particularly those from vulnerable groups. The adequacy of social safety nets must be considered when responding to a large-scale crisis.

B. Lessons Learned and Follow-Up Actions

4. ADB has learned that standard program loans are not necessarily the best assistance modality to respond to a situation, such as that of the Asian Financial Crisis, since long-term structural reforms may have to be addressed in separate and subsequent interventions. Thus, in October 2003, ADB adopted the special program loan (SPL) as a new lending modality to assist ordinary capital resources-eligible developing member countries (DMCs) or graduated DMCs affected by a crisis. Large-scale SPLs can be provided as part of an international rescue effort in cooperation with developing partners when the crisis has significant structural dimensions and is likely to have significant social impact. The lessons learned from ADB assistance are very relevant and will be taken into consideration in the design of future interventions, including both SPL and traditional program lending.

5. We note that no follow-up actions were identified given the good performance of the loans and the absence of an ongoing program in Korea.