

**NOTE ON THE FIFTH STRATEGY MEETING ON  
THE COOPERATION FUND IN SUPPORT OF THE FORMULATION AND IMPLEMENTATION  
OF NATIONAL POVERTY REDUCTION STRATEGIES (NPRS) AND  
THE POVERTY REDUCTION COOPERATION FUND (PRF)<sup>1</sup>**

**Asian Development Bank, Manila  
13-14 October 2004**

**I. INTRODUCTION**

1. The Fifth NPRS/PRF Strategy Meeting (the Meeting) on the Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies (NPRS) and Poverty Reduction Cooperation Fund (PRF) was held in Manila on 13-14 October 2004. It was attended by representatives from the Ministry of Foreign Affairs of the Government of the Netherlands (the Netherlands), Department for International Development of the Government of the United Kingdom of Great Britain and Northern Ireland (DFID), and their respective representatives from the Board of Directors (BOD)<sup>2</sup>. The Meeting also involved about 30 participants from the Asian Development Bank (ADB), including senior and technical staff from regional departments (RDs), Strategy and Policy Department (SPD), Office of Cofinancing Operations (OCO), and the Regional and Sustainable Development Department (RSDD). Vice President, Knowledge Management and Sustainable Development (VPKMSD) chaired the wrap-up session. The Meeting program is in Appendix 1. The list of attendees is in Appendix 2.

2. The Meeting (i) reviewed overall progress in portfolio and pipeline; (ii) reviewed key fund management and implementation issues; (iii) discussed the scope, timeframe, and logistical arrangements of the joint mid-term review of NPRS/PRF scheduled in January-February 2005; and (iv) discussed any other administrative matters. As inputs to the discussion on mid-term review, two additional sessions were included in the program: (i) changing corporate environment of ADB and its implications to NPRS/PRF; and (ii) exchange with India Resident Mission (INRM) and Indonesia Resident Mission (IRM) on their respective ADB-DFID partnership modalities. Further, departmental consultation sessions provided valuable feedback from RDs and other departments on the NPRS/PRF utilization and their perceptions of the two funds.

3. As per the 'lighter-touch' approach adopted at the Fourth Strategy Meeting on 27-29 January 2004, the donors had, prior to the Meeting, provided a no-objection basis clearance to 18 projects (1 for NPRS and 17 for PRF) totaling \$11.2 million. Therefore, the Fifth Strategy Meeting did not involve discussion of new projects. For reference, the list of new projects endorsed in the period of June-October 2004 is attached in Appendix 3. List of peer reviewers is attached in Appendix 4 to acknowledge their contribution.

4. This note summarizes the key discussions and agreement during the two-day Meeting.<sup>3</sup> The next meeting is scheduled in April 2005.

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<sup>1</sup> The Meeting only discussed issues with regard to the regional window of the PRF (PRF-HQ). A parallel discussion on the People's Republic of China (PRC) window (PRF-PRC) has been organized among ADB's PRC Resident Mission, DFID-China, and the PRC Government.

<sup>2</sup> The Government of the Netherlands was represented by Nathalie Kroner (International Financial Institutions Division, The Ministry of Foreign Affairs, The Hague) and BOD counterpart Geert Jan Engelsman (Alternate Executive Director). DFID was represented by Jeremy Clarke, Jonathan Thomson and Rick Taylor (Asia Directorate, DFID-London) and BOD counterpart David Taylor (Alternate Executive Director).

<sup>3</sup> This note was prepared by Sonomi Tanaka (NPRS/PRF Coordinator) under the guidance of Shireen Lateef (OIC, RSPR). Minutes were taken by Cecilia R.C. Santiago (RSPR).

## II. KEY ISSUES DISCUSSED

### A. Overview

5. ADB acknowledged valuable contributions of the donors and thanked them for their generous support. Donors appreciated ADB for productive discussions, its staff's active participation and candid feedback, and the opportunity to exchange experience with India and Indonesia. They were pleased with the good progress made in portfolio development and excellent quality of proposals backed by the peer review process that emphasizes cross-regional knowledge exchange. The presentation and discussion on the rapidly changing corporate environment of ADB – particularly in line with the Enhanced Poverty Reduction Strategy, Reform Agenda, and Managing for Development Results (MfDR) - were much appreciated by donors, as they gave good insights for future direction of NPRS/PRF.

6. ADB and donors agreed that the Meeting was opportune to review the two funds from the following perspectives: (i) relatively slow implementation and disbursements; (ii) impact of NPRS/PRF against initial objectives; (iii) insufficient incentives to work on perceived non-core activities; (iv) cost effectiveness; (v) balance between the demand-based approach and selectivity in the aggregate portfolio; (vi) relevance of NPRS/PRF in the context of the changing corporate environment; (vii) overall trust funds management and coordination; and (viii) alignment with knowledge management framework. While some immediate actions were agreed upon, it was agreed that most of these issues would be addressed in the joint NPRS/PRF mid-term review scheduled in January-February 2005.

7. In view of the possible readjustments of the approaches and criteria of the PRF following the mid-term review, DFID decided to postpone the scheduled new uptake in November until after the mid-term review, so that sufficient fund would be availed for the remaining implementation period. NPRS would be open for the November uptake as scheduled (para 29).

### B. Role and Relevance of NPRS/PRF in the Context of ADB's Changing Corporate Environment

8. In the opening session, NPRS/PRF Coordinator summarized the recent changes in ADB's operational approaches, including the Enhanced PRS, ADB's Reform Agenda, Knowledge Management Framework, and MfDR, and suggested that it was timely to assess the relevance and eligibility criteria of NPRS/PRF in line with these recent changes. A presentation by the Results Management Unit of SPD followed on the overall framework of MfDR, and by Deputy Director General, SARD on the regional perspectives of MfDR. SPD emphasized that the application of MfDR would lead ADB to align its operational priorities and outcomes with those of DMCs'. SARD reported that the framework for MfDR had been developed for the department, but the challenge was to operationalize this in DMCs. Officer-In-Charge, SPD made a brief presentation of the department's recent thinking on trust funds. **All parties agreed** on the need to revisit selection criteria and incentive mechanisms of NPRS/PRF during the mid-term review in line with the Enhanced PRS, MfDR, and other recent changes in strategic agenda in ADB. Further, the following discussion took place.

9. **Alignment with the Enhanced PRS.** Some participants pointed out that the emphasis on upstream work for CSPs (e.g. policy studies) as opposed to the downstream work (project preparation) under the Enhanced PRS should be reflected in the renewed focus of the PRF (while NPRS already has this focus). This may also lead to better alignment of NPRS/PRF-supported activities with CSPs, a topic that has been discussed over a year.

10. **Alignment with the Knowledge Management Framework.** Given the significant amount of knowledge to be generated through the activities under the NPRS/PRF, **ADB and donors agreed** on strengthening a knowledge management system for NPRS/PRF (e.g. case writing, more proactive dissemination) and preparing a knowledge event on NPRS/PRF in 2005, involving project officers, country stakeholders, and donors. These activities shall be carried out in line with the overall implementation of the Knowledge Management Framework.

11. **Trust funds coordination.** NPRS/PRF Coordinator suggested that a careful review of trust funds as a whole and coordination among them may be necessary, especially among multidonor thematic funds, given the limited absorptive capacity in ADB. SPD emphasized the importance of the strategic alignment of each fund with ADB's policy agenda, without referring to the coordination across various funds. The Netherlands (BOD) suggested that an assessment by ADB would be highly useful to donors regarding (i) total amount of resources required to address ADB's strategic agenda in short, medium and long terms, and (ii) the ways in which ADB makes strategic choices regarding the kind and number of trust funds (e.g. limiting them to poverty and a few thematic areas). The Netherlands further suggested convening a trust fund strategy meeting of all donors.

12. **Strategic selectivity vs. demand on the ground.** In the context of strategic alignment of trust funds, a question was also raised by DFID about how to achieve selectivity in the overall portfolio while meeting various demands arising from country-level priorities. SPD emphasized the importance of the former, while the Enhanced PRS supports the latter. The issue will be carefully examined during the mid-term review.

13. **Cost effectiveness.** SPD mentioned that the introduction of MfDR would require various levels of re-engineering in the way ADB operates, and that in this context, cost effectiveness would need to be carefully examined. As far as trust funds are concerned, aside from cost effectiveness of fund utilization and management, ADB-donor relationship would also be a major issue.

### **C. NPRS/PRF Portfolio and Progress (January - September 2004)**

14. The NPRS/PRF Coordinator reported progress in new funding endorsement (para 3), TA approvals and implementation since the last strategy meeting in January<sup>4</sup>. As of 30 September 2004, there were 17 TAs endorsed for funding by the NPRS amounting to \$5.8 million (79% of the initial contribution of \$7.4 million). Of this amount, \$4.9 million (84%) was under implementation. As for PRF-HQ (i.e., excluding PRC), there were 66 TAs amounting to \$34.0 million (64% of the initial contribution of \$53.5 million). Of this amount, \$13.7 million (40%) was under implementation or waiting for TA effectiveness. List of NPRS/PRF portfolio is in Appendix 5.

15. RDs and other user departments also provided their analysis of the progress made and useful feedback on key implementation issues during the consultation sessions on Day 2. Departmental consultation sessions were attended by the three RDs (East and Central Asia, Mekong, and South Asia) and RSDD. Presentations and discussions at these sessions are summarized in Appendix 6.

16. **Portfolio Assessment.** Donors were pleased that their initial concern with regional and sectoral imbalance has been resolved. It was noted that there was also a good balance between pilot projects and upstream work (e.g., policy study and strategy development) while capacity development was a major thrust of all the TAs supported.

<sup>4</sup> Details are available from S. Tanaka, RSPR.

17. **Positive impacts.** Donors and ADB participants identified the following positive impacts to date:

- Effective coordination by RSDD through procedural and substantive guidance;
- Strategic and systematic utilization of NPRS/PRF by some divisions;
- Spread of 'champions' for poverty reduction from initially pockets of staff (poverty reduction and social development specialists, in particular) to a wider group of project officers (including loan processors);
- NPRS/PRF providing incentives to these champions;
- Signals of positive impacts in some TAs, though generally too early to assess;
- Emerging examples of poverty assessments supported by NPRS/PRF feeding into NPRSs and CSPs

18. **Slow disbursement.** On the other hand, as in previous strategy meetings, donors raised concerns with the slower than expected disbursement, despite the series of efforts made over the past year<sup>5</sup>. As of 30 September 2004, the total cumulative disbursement amounted to \$1.15 million for NPRS (19% of total committed after 34 months of implementation period) and \$1.83 million for PRF-HQ (4% of total committed after 26 months of implementation period). Based on these figures and the projections prepared by the NPRS/PRF Coordinator prior to the Meeting, it was estimated that by the end of the fiscal year of each fund (31 December 2004 for NPRS and 31 March 2005 for PRF), cumulative disbursements would not exceed the received amounts to date: \$2.32 million for NPRS and \$4.29 million for PRF-HQ. This means that a slight downward revision would be necessary to the earlier projection made by the NPRS/PRF Coordinator<sup>6</sup>. **It was agreed** that more accurate disbursement projections should be attempted. ADB will revisit the projections in line with the 30 September 2004 disbursement figures and report to donors in due course.

19. Donors acknowledged the unrealistically high expectation at the time of the establishment of the funds. However, the current pace of disbursements shows that NPRS/PRF-financed TAs are slower than the average three-year advisory TAs (ADTAs) in the past five years that were used as projection benchmarks.

20. In an effort to find solutions, ADB and donors jointly made preliminary assessments of possible reasons for slow implementation and/or disbursements, as outlined below. At the same time, **it was decided** that the bottlenecks to implementation and disbursements would be further analyzed in detail during the mid-term review.

#### **Factors Specific to NPRS/PRF**

- NPRS/PRF's sole support to ADTAs instead of project preparatory TAs (PPTAs), as demonstrated by a clear comparison with India and Indonesia cases (para 26);
- Lack of country-team-based decision-making and monitoring mechanisms in NPRS/PRF unlike India and Indonesia experience (para 26);

<sup>5</sup> See Notes on the Third and Fourth Strategy Meetings. Measures applied to date include: (i) 9-month cut-off rule between concept endorsement and ADB TA approval; (ii) disbursement projections to set disbursement targets; (iii) procedural streamlining to accelerate processing; and (iv) closer monitoring of TAs under implementation.

<sup>6</sup> See Explanatory Note on Long-Term Disbursement Projection and Revised Fund Duration on NPRS and PRF (included in the respective Semi-Annual Progress Update: January-June 2004).

- Complexity of TA design involving multiple stakeholders at central and grassroots levels, due to the emphasis on innovation and learning especially with pilot projects under the PRF;
- Long implementation period for pilot projects under the PRF;
- Delays in loan approval or implementation when PRF TAs are tied to loans;
- Use of individual consultants instead of firms, partly due to the effort to allocate more budget to activities than consultants (especially domestic consultants, as per the PRF criteria);
- Generally lower priorities attached to ADTAs than to loan-related activities, resulting sometimes in insufficient allocation of project officers's time and TA supervision budget;

### **General Factors**

- Generally heavy workload of ADB staff;
- Frequent turnover of project staff;
- Disagreement on individual consultant rates between ADB's consulting services division (COCS) and the selected consultants;
- Generally long time required for government's approval of TA and TA letter signing;

## **D. Other Implementation Issues**

21. **CSP/CSPU alignment.** NPRS/PRF Coordinator provided a progress update on the follow-up actions for the integration of NPRS/PRF-supported TAs into CSPs/CSPUs as agreed in the Fourth Strategy Meeting, and reported the difficulties to date. Drawing on the pilot experience of Nepal and Lao PDR, the Coordinator emphasized that a simple calendar alignment for physical inclusion of new proposals in the pipeline list in CSP/Us would not yield the expected results of strategic selectivity unless the entire conditions for full alignment are met. Regional or country allocation of funds to allow country teams' initiatives, acceptance by donors of slower processing, predictable and longer-term financing, and procedural integration with other trust funds (i.e. so that all the trust funds follow CSP/U process) were listed as necessary conditions. The Meeting did not reach any new decisions except to agree on the need to look into this matter further in the mid-term review. **Current approach** (i.e., alignment to the extent possible) **will continue** until further notice.

22. **Criterion on Consultant Engagement.** In response to the request by some RDs, **it was agreed** that a more flexible application should be made of the criterion on the maximization of use of domestic consultants and minimization of international ones, especially in the countries and on topics where a dearth of local expertise is evident.

23. **Staff incentives.** The following possible measures were discussed to provide incentives to middle-management and staff for faster processing and implementation: (i) opening of the PRF to PPTAs; (ii) decentralized decision making of funding by regional departments or country teams based on regional/country allocation; (iii) recognition to be provided by middle-management through inclusion into work plan and performance evaluation report; (iv) special innovation awards to project officers with innovative ideas; (v) incorporation of review consultant budgets into TA to complement lack of administrative budget for TA reviews; (vi) encouraging staff to link PRF with ongoing loans rather than upcoming loans to avoid project preparation from the scratch. **It was decided** that the NPRS/PRF Coordinator would follow up (iii)-(vi), while (i) and (ii) would require further discussion.

24. **‘Lighter-touch’ approach** (para 3). While this new approach has allowed greater flexibility within the ADB and significantly contributed to accelerating TA processing, ADB participants also pointed out that this may have led to a loss of opportunity for technical exchange between ADB and donors (especially DFID). **It was agreed** that the NPRS/PRF Coordinator would continue to encourage staff to discuss with DFID field staff during TA processing and implementation, wherever such expertise is available.

25. **Further dissemination to ‘unreached’ staff.** Several RDs pointed out that although the two funds have been known to many, detailed criteria and procedures need further dissemination, especially to those who have not utilized these funds including Resident Missions. NPRS, in particular, appeared to be seen as a fund that solely focusing on ‘formulation’ of NPRSs, despite the fact that the fund is open to a much broader upstream work that is aligned with respective countries’ NPRSs (e.g., capacity building, implementation support, policy study to influence reformulation of NPRS). **It was agreed** that staff sensitization seminars and other proactive dissemination activities of NPRS/PRF would be pursued and to be supported by Director Generals, Directors, and Country Directors.

#### **E. Joint Independent Mid-Term Review of NPRS/PRF (January-February 2005)**

26. **ADB-DFID partnerships in INRM and IRM.** Prior to the discussion of draft TORs of the mid-term review, a videoconference with INRM and IRM was held to exchange experience and bring broader perspectives into the Review. It was reported that both partnerships (India DFID Trust Fund and Indonesia Partnership for Innovations in Poverty Reduction [PIPR]) included PPTAs (about half of overall portfolio) and were fully aligned with CSP/U process under which ADB and DFID jointly decide which pipeline to be supported under the Trust Fund/PIPR. **INRM** noted a very successful experience (including relatively smooth disbursements) which resulted in the scheduled replenishment of the fund. **IRM and their DFID counterpart** reported that although the overall experience has been positive, initial implementation of PIPR had been affected by short staffing and the political economy situation of the country. Slow disbursement and lack of structural and coherent planning for strategic focus were identified as key weaknesses. Efforts were now being made to narrow down the originally broad focus of PIPR to the issues related to decentralization and Millennium Development Goals. INRM and DFID counterparts were also trying to address governance issues through a ‘drivers of change’ approach with the emphasis on good institutional analysis.

27. **Mid-Term Review.** Based on various discussions at the Meeting, it was decided that the draft TORs prepared by NPRS/PRF Coordinator would be revised in line with the following outline:

Part A: Evaluation of Current Portfolio against the Original Objectives of NPRS/PRF

- Impacts (including in-depth analysis of a few TAs at an advanced stage)
- Strategic alignment and selectivity of portfolio against the original objectives
- Bottlenecks and incentives/disincentives to implementation

Part B: New Direction of NPRS/PRF in Line with Recent Changes

- Strategic alignment of NPRS/PRF with the changes (e.g. Enhanced PRS, MfDR)
- Issue of consistency with Indonesia and India partnerships, including inclusion of PPTAs (PRF only)
- Balance between overall selectivity and variations in country-level demands
- Cost effectiveness
- CSP/U alignment

- Alignment with other trust funds
- Centralized vs. decentralized decision making and fund allocation
- Ways to accelerate implementation and disbursement

28. **It was agreed** that the Review would be carried out in six weeks, starting mid-January 2005. Detailed arrangement for cost sharing will be discussed further. The Netherlands proposed the use of ADB's Operations Evaluation Department (OED). ADB responded that it would be too late to program the NPRS/PRF Review for OED's 2005 work program, but suggested that they should be brought in as an independent reviewer of the Review Report. As for PRF, a separate but parallel review for PRF-PRC will be carried out by PRCM and DFID China during the same period.

### III. CONCLUSION AND NEXT STEPS

29. To retain sufficient funds for allocation after the mid-term review and to allow concentration of efforts on accelerating implementation of existing portfolio, **DFID decided to postpone** the scheduled acceptance of new proposals in early November 2004 until after the mid-term review (around March). The Netherlands, however, agreed to continue the scheduled November uptake to achieve full commitment to the initial contribution.

30. The next strategy meeting will take place prior to the high-level meeting on ADB-DFID Partnership scheduled in April 2005 in Manila<sup>7</sup>, so that the decisions on NPRS/PRF would feed into the broader partnership discussions.

31. As follow-up actions, donors will:

- Finalize TORs for the mid-term review, in consultation with NPRS/PRF Coordinator.
- Engage consultants to carry out mid-term review in January-February 2005.

32. ADB will:

- Apply more flexible approach to the use of international consultants.
- Continue the 'light-touch' approach but encourage engagement of field staff of DFID where possible.
- Work on greater dissemination of NPRS/PRF, especially to resident missions.
- Attempt a more accurate disbursement projection.
- Explore shorter implementation period where possible.
- Continue to explore ways to address implementation bottlenecks to expedite disbursements.
- Continue close monitoring of TAs under implementation.

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<sup>7</sup> Later discussion between SPD and DFID London decided to rescheduled the meeting in May 2005, instead of April.