

**NOTE ON THE FOURTH 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)**

**Asian Development Bank, Manila
27-29 January 2004**

I. INTRODUCTION

1. The Fourth 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 27–29 January 2004, with representatives from the Government of 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).¹ The Meeting program is in Appendix 1. The Meeting was attended by nearly 50 participants from the Asian Development Bank (ADB), including Directors General (DGs), Directors, and other staff from the five regional departments (RDs), Strategy and Policy Department (SPD), Controller's Department (CTL), Operations Evaluation Department, (OED), Office of Cofinancing Operations, and the Regional and Sustainable Development Department (RSDD). The list of attendees is in Appendix 2.

2. The objectives of the Meeting were to: (i) review the overall progress in portfolio and pipeline, including the preliminary impact of the TAs in ADB and its developing member countries (DMCs); (ii) review the progress made on the follow-up actions since the last Strategy Meeting in July 2003 (see Appendix 3 for the 'Action Plan'); (iii) discuss the Issues Paper containing three key implementation issues and agree on follow-up measures (see Appendix 4 for a summary); (iv) review new proposals for funding; and (v) address any other technical and financial matters related to NPRS/PRF implementation.²

3. Among the 18 proposals submitted to the donors this time, 14 projects were endorsed for further processing, 3 projects were requested to provide further clarification and 1 was referred to other funding sources. A detailed discussion on the project proposals is attached as Appendix 5. The list annotating the reasons for pending/referral is attached as Appendix 6. List of ADB peer reviewers is attached in Appendix 7 to acknowledge their contribution.

4. This note summarizes the key discussions and agreement during the three-day Meeting.³

¹ The Government of the Netherlands was represented by Heino van Houwelingen (ADB Desk Officer, International Financial Institutions Division, The Ministry of Foreign Affairs, the Hague) and counterparts in BOD (Emile Gauvreau, Executive Director, and Geert Jan Engelsman, Director's Advisor). DFID was represented by John Gordon (Head, Regional Policy Unit, Asia Directorate, DFID-London) and counterparts in BOD (Rolf Eckermann, Executive Director, Nicola Jenns, Alternate Executive Director). Alistair Wray, Senior Infrastructure and Urban Development Advisor, Asia Division, DFID also joined discussion of infrastructure-related proposals.

² The discussions on the earmarked fund for the People's Republic of China (PRC) under the PRF, was not on agenda. It took place in a separate video conference on 23 February 2004.

³ This note was prepared by Sonomi Tanaka (NPRS/PRF Coordinator) under the guidance of Jan van Heeswijk (Director General, RSDD) and Brahm Prakash (Director, RSPR). Minutes were taken by Cecilia R.C. Santiago (RSPR).

The key follow-up actions agreed upon are in Appendix 8.

II. FUND MANAGEMENT ISSUES

A. Overview

5. ADB acknowledged valuable contributions of the donors and thanked them for their generous support. The NPRS/PRF Coordinator emphasized that the funds were providing great incentive to staff in developing and testing innovative approaches to poverty reduction. Donors thanked ADB for quality discussions and expressed appreciation of the enthusiasm on the part of senior ADB staff and project officers. They appreciated RSDD for the overall management of the meeting. Donors were pleased with the good progress made in the portfolio development and technical assistance (TA) implementation since the last strategy meeting in July 2003. The discussions during the meeting focused on the following:

- (i) NPRS/PRF progress in July – December 2003;
- (ii) Role and relevance of NPRS/PRF in addressing ADB's corporate agenda;
- (iii) Role of NPRS/PRF in strengthening operational effectiveness in each RD;
- (iv) Need for sustainable financing instruments and modalities beyond and within NPRS/PRF;
- (v) Procedural and pipeline integration of NPRS/PRF with Country Strategy and Programs (CSPs) and their annual updates (CSPUs);
- (vi) Level of donor involvement in concept development and endorsement;
- (vii) Level of disbursement and the need to extend the funds' timeframe;
- (viii) Need to strengthen monitoring and evaluation; and
- (ix) Continuous harmonization of NPRS/PRF.

B. Overall Progress of NPRS and PRF: 1 July – 31 December 2003⁴

6. As of 31 December 2003, 15 projects in the amount of \$4.9 million have been endorsed for funding under the NPRS and 58 projects in the amount of \$24.3 million have been endorsed under the PRF. This compares with 7 projects (\$2.7 million) for the NPRS and 26 projects (\$11.5 million) for the PRF on 30 June 2003. The portfolio nearly doubled during this period. In the opening session, the NPRS/PRF Coordinator presented the following observations on the fund implementation during the last 6 months:

- (i) **Faster speed of ADB's TA approval** of NPRS/PRF-funded projects. In the last 6 months, 7 new TAs (\$2.0 million) were approved under the NPRS and 19 new TAs (\$6.7 million) under the PRF. This compares with no TA under the NPRS and 5 TAs (\$2.9 million) under the PRF during the previous 6-monthly period (1 January - 30 June 2003); thus pace of approval picked up during this period.

⁴ Figures for PRF include the PRC window of PRF.

- (ii) **Progress in TA implementation.** Two additional small-scale TAs (PRF) were completed during this period, and 3 NPRS TAs and 10 PRF TAs which were under implementation remained on track and progressed well.
- (iii) **Nine-month cut-off rule.** It is understood that the faster pace of processing was brought about by this new rule under which the project officers are expected to complete processing within the 9 months from the funding endorsement by the donors. Donors and ADB agreed that the rule should be continued.
- (iv) **Increased and broader demand.** The total amount of proposals submitted for the PRF funding increased from \$12.8 million in the first two strategy meetings (July and December 2002) to \$18.9 million in the last two strategy meetings (July 2003 and January 2004). Many new NPRS/PRF proposals for the 4th meeting originated from new regions (e.g. East and Central Asia excluding PRC, Southeast Asia). There were more proposals from South Asia than before, indicating that there was a broader regional demand than before.
- (v) **Strengthened enforcement of eligibility criteria.** After the 3rd meeting, new concept note template was introduced, guiding the project officers through NPRS/PRF objectives and eligibility criteria. *Guidelines for Peer Reviewers* were also prepared and distributed. Thus the procedures have become systematic and more effective.
- (vi) **Strengthened roles of Resident Missions (RMs).** Three RMs (Cambodia, Viet Nam and Pakistan) are in the process of recruiting poverty reduction consultants. PRCM has already recruited one. Their engagement is timely, as some of the NPRS/PRF TAs have been delegated to the RMs after the approval.

C. Role and Relevance of NPRS/PRF in Addressing ADB's Development Agenda

7. The meeting focused on the overarching theme: how can we ensure the strategic use of NPRS/PRF and its systemic impact on poverty within the operational environment of ADB? SPD made presentation on the role of NPRS/PRF in addressing ADB's broader development agenda. In his presentation, DG, SPD emphasized the relevance of NPRS/PRF in enhancing ADB's development effectiveness, as follows:

- (i) There is strategic alignment between ADB's **vision of poverty reduction** and the intentions of the NPRS/PRF;
- (ii) With its nature, scope and focus of assistance, NPRS/PRF helps staff become more conscious of the need for country-level alignment with the framework of national poverty reduction strategies and the Millennium Development Goals. PRSP/PRF is supporting this alignment and greater collaboration with the donors in the field;
- (iii) ADB is now turning to become more **results-oriented**. The area most in need of donors' support in this context is at a country level, including DMC capacity building for developing, implementing, and monitoring national poverty reduction strategies. This also fits best with the NPRS/PRF.

8. SPD staff made a presentation on the conditions under which ADB and its development partners could further strengthen their development effectiveness through partnerships:

- (i) **Maximum overlap.** Partnerships can be successful under which ADB and its partners have similar development objectives (i.e., pro-poor sustainable economic growth, inclusive social development, and good governance).
- (ii) **Stable and predictable financing.** If further financial support from our partners could possibly be stable and predictable, it would be most helpful for ADB to plan on a holistic, country-wide, medium-term basis.
- (iii) **Efficient operations.** Joint operations should be done in a way to minimize cost. Simplified procedures and business processes and uniformity of design and requirements across donors would help in this regard.

9. Donors observed that the new orientation that ADB has taken with poverty reduction and country focus aligns well with the theme of NPRS/PRF, especially with regard to ADB's operational alignment with DMC's respective national poverty reduction strategies. Donors wished to see more development impact of ADB operations on poor in Asia and the Pacific.

D. Role of NPRS/PRF in Strengthening Operational Effectiveness in RDs

10. The meetings with RDs (Day 2) highlighted how the NPRS/PRF has been and will be utilized so as to strengthen operational effectiveness. RDs agreed that the NPRS/PRF enables them to undertake innovative activities that relate to poverty reduction, capacity building, and participatory design of loan projects, i.e., activities that would otherwise not be done given the limited financial resources. Donors appreciated the opportunity to understand better the different regional contexts that affect the level of demand for and utilization of the funds in each RD.

11. The **East and Central Asia** (ECD) has not been proactively accessing to the NPRS/PRF except for the PRF-PRC, as the problem of poverty had not been articulated well by most countries until recently. Now that there is growing country ownership of the issue and increasing demand for poverty reduction activities through grant funds, there is strong ECD support to pursue poverty reduction further. From now on, ECD wishes to engage in a more proactive approach to the NPRS/PRF. It was understood that the type of activities to be requested for NPRS/PRF funding would depend on the CSP of each country and the availability of and complementarity with other funds.

12. In the **Mekong Region** (MKRD), the NPRS/PRF funds are helping to better understand the causes and nature of poverty, reorient loan designs to be more pro-poor and participatory, improve targeting, and carry out capacity building and pilot activities. Without the trust funds, these activities cannot be done. Examples of the special opportunities facilitated by the NPRS/PRF were mentioned (e.g. Tonle Sap initiatives). NPRS/PRF-funded activities are also influencing the sector road maps that get included in the CSPs. MKRD took initiatives to develop a framework for strategic use of special grant funds in Viet Nam, Lao PDR, and Cambodia, based on consultations with the respective government and civil society. The framework, though yet to be formalized, has identified the key interventions and approaches to be addressed through trust funds. Individual proposals are prepared based on these frameworks. MKRD also pointed out complementary roles of NPRS, PRF, and the Japan Fund for Poverty Reduction.

13. In the **Pacific Region** (PARD), the NPRS/PRF appeared at the right time and supported the evolution of process that gave impetus to studying and addressing poverty as an issue. Earlier, the concept of poverty was not well-established and accepted in the region. PARD, together with other development partners, has successfully brought out poverty issues to the forefront and has especially aligned its operations with two themes (i) providing basic social services; and (ii) creating jobs. However, much more needs to be done. There are countries where poverty analysis is not yet carried out. It is also necessary to localize MDGs in the Pacific islands. The key additionality that the NPRS/PRF has brought to the PARD operations is the opportunity to proactively support capacity building of civil society in demanding more data and participation in decision-making process. This is now becoming a regular part of PARD operations.

14. In the case of **South Asia Region** (SARD) low utilization of the NPRS/PRF and the ad hoc nature of current use was pointed out. While SARD is aware that the pressure on delivering project preparatory TAs (PPTAs) and loans with limited human resources has constrained participation opportunities provided by the NPRS/PRS, it emphasized the need to look at partnerships in a broader framework, especially with DFID. SARD is already benefiting from the DFID India fund through India RM, and there are many cofinancing opportunities, consultant support and other ongoing partnership initiatives in Pakistan, Bangladesh, Nepal, and Sri Lanka. Notwithstanding, there are niches for the NPRS/PRF in the region, such as: (i) scaling-up of successful micro-level approaches; and (ii) direct operational learning in Afghanistan and other post-conflict environment with its uncertainties about future operations. DFID reiterated its focus on South Asia and expressed support for new areas to be pursued under the NPRS/PRF. At the wrap-up, SARD further proposed that it would look into the good experience of India DFID fund and bring out the lessons learned.

15. The **Southeast Asia Region** (SERD) currently has no NPRS/PRF portfolio. The PRF is not utilized in the region because the Philippines is not eligible and Indonesia has a separate DFID partnership program (PIPER) through Indonesia RM (IRM). There are also significant amount of Netherlands cofinancing resources available for Indonesia, hence NPRS is not used. SERD and IRM requested clarifications on: (i) whether Indonesia is still eligible for the PRF if the objectives and approaches of the proposals better fit the PRF than the PIPER; (ii) whether the NPRS can be considered for the Philippines; and (ii) whether the regional cooperation initiative of BIMP-EAGA can be supported through the NPRS/PRF.

16. On the **first** question, DFID responded that the general understanding of London is that the PRF and PIPER are set up for similar purposes and that it is difficult to justify that access to both funds be available to Indonesia. Reacting to the response of IRM that the on-the-ground operational understanding of the two funds in Indonesia were exactly the opposite, **DFID assured that** the it would confirm this matter with the London and Indonesia Offices and get back to ADB in due course. On the **second** question, while all the DMCs are eligible under the NPRS, the Netherlands clarified that the Philippines is not a country of strong focus for the Netherlands. On the **third** question, both donors said that on the basis of the countries involved, they would have little interest although the proposals need not be excluded if they meet the funds objectives and criteria.

E. Need for TA and Other Grant Financing Modalities

17. In the Meeting, the need for **long-term sustainable grant financing mechanisms for poverty reduction beyond NPRS/PRF** was repeatedly raised by all participants. Both donors and ADB recognized the limited role of trust funds. To institutionalize and scale up learning about poverty reduction through the NPRS/PRF, donors maintained that ADB should come up with long-term financial solutions that would allow ADB to address poverty in a systematic and sustainable way after the trust funds are spent. In this regard, decline in core TA resources, namely the Japan Special Fund (JSF) and the TA Special Fund (TASF), is a major challenge. It was suggested that this issue should be addressed through different avenues (e.g. Asian Development Fund IX negotiations). The participating Executive Director Offices also reminded SPD of the need to resume the pending discussion of a working paper on sustainable financing of TA and knowledge products and services.

18. The NPRS/PRF Coordinator also raised the issue of exploring new **financing modalities** that go beyond the current stand-alone TA processing to allow more flexible use of the NPRS/PRF. Topping-up PPTAs to carry out additional poverty assessments or pilot testing of potentially effective approaches was given as an example. Donors initially raised concerns about the potential loss of additionalities provided by the NPRS/PRF. After discussions, they said that they would be open to proposals of new modalities as long as the funds objectives and additionalities are maintained. The proposed special study on this topic, however was considered unnecessary.

F. Procedural and Pipeline Integration of NPRS/PRF with CSP/Us (Issue 1)

19. At the third Strategy Meeting, the need for aligning NPRS/PRF proposals procedurally with CSP/Us and include them in the list of pipeline before the Country Programming Confirmation Mission was noted. It arose out of the concerns about the seemingly ad-hoc nature of individual proposals, lack of early involvement of countries in identification of proposals, and difficulties with a country-level impact monitoring. As per the decision at the Third Strategy Meeting, RSPR prepared a draft Issues Paper and circulated it to the donors and within ADB prior to the Fourth Strategy Meeting (see Appendix 4). The Paper presented pros (e.g. strategic prioritization and integration of proposals in line with overall CSP goals, early discussion with the government) and cons (e.g. risk of funding core activities of ADB, and reduced flexibility) of the CSP/U alignment, and four possible options were presented. At the Meeting, the representatives of RDs and other departments also expressed their positions, largely in support of greater alignment.

20. Donors initially expressed concerns with the downside effects of alignment, such as potential risks of the loss of 'additional' nature of the funds, as well as the need for more observations before new procedures are introduced. Nonetheless, the discussion concluded that the NPRS/PRF should be procedurally aligned with CSP/Us to the extent possible, while ensuring the following principles:

- (i) Funds objectives and eligibility criteria are met (e.g., strong poverty focus, used for learning and innovation, scaling up potential, alignment with the country's national poverty reduction strategies, etc.);
- (ii) The process needs to be flexible and responsive to the emerging concerns and needs, especially to the demands from the developing member countries;

- (iii) While alignment with CSP/Us should be used as a formal procedure of discussing new projects with the government at an early stage, this should not be seen as the only opportunity of discussion. To ensure greater country ownership, continuous discussions with the government and other stakeholders should be encouraged;
- (iv) The current quality assurance process through peer review meetings should be maintained to ensure that the funds objectives and criteria are met and ADB-wide learning continues;
- (v) The new project selection should remain on a merit basis, and the funds' demand-oriented nature should be maintained. Therefore, regional allocation of fund is not a preferred option.

21. **It was agreed that** detailed procedures and schedules for pipeline development and endorsement will be developed based on internal consensus and presented to the donors before the Fifth Strategy Meeting (27-29 July 2004).

G. Level of Donor Involvement in New Project Selection

22. As part of the new procedures, the donors also emphasized the need for ADB to take full ownership in prioritizing and endorsing the new proposals to ensure that funded activities are in line with the funds objectives, while the donors would prefer to have a 'lighter touch'. It was also agreed that the emphasis in semi-annual strategy meetings would shift from just endorsing new projects to closely reviewing and evaluating the implementation and preliminary impacts of the NPRS/PRF-funded TAs.

H. Level of Disbursement and Need for Funds Extension (Issue 2)

23. During the Third NPRS/PRF Strategy Meeting, donors raised concern with the low level of disbursement, and a series of follow-up actions were agreed upon (Appendix 3). As of 30 June 2003, disbursements totaled \$0.44 million and \$0.07 million for the NPRS and PRF, respectively. By 31 December 2003, these figures increased to \$0.72 million and \$0.51 million, respectively, yet both of these were still way below the received amounts to date: \$2.32 million for the NPRS and \$6.39 million for the PRF. The NPRS/PRF Coordinator presented estimates of expected disbursements in 2004 based on the claims from project officers. For the NPRS, they were estimated at \$0.66 million in January-June 2004 and \$1.66 million in July-December 2004, requiring a remittance at about additional \$1 million in the latter half of the year. As for the PRF, they were estimated at \$2.58 million in January-June 2004 (\$1.75 million from the Regional Window and \$0.83 million from PRF-PRC) and \$6.20 million (\$4.40 million from the Regional Window and \$1.80 million from PRF-PRC), requiring additional \$3 million in the latter half of the year (\$1.70 million for Regional and \$1.30 million for PRC).

24. The Issues Paper (Appendix 4) reported on the progress made in follow-up actions and concluded that the pace of processing and implementation of activities under the NPRS/PRF was not slower but slightly faster in comparison with an average advisory TA of ADB. The Coordinator further proposed to match the transfer of funds with commitment instead of disbursement, as is the case with some other trust funds in ADB.

25. Donors responded that they would like to see further acceleration of disbursement. It was

noted that matching transfer of funds with commitment was not possible due to the accounting system of the Netherlands and UK governments. They requested ADB to continue to provide realistic disbursement forecasts, so that the funds that need to be transferred to ADB are provided for in their annual budget. Given the slower than expected pace of disbursement, donors pointed out that there was a need to reassess the timeframe for funding commitment provided in the Memorandum of Understanding for both NPRS and PRF. ***It was agreed that*** a proposal for extension should be prepared for both donors and a formal agreement reached soon.

26. The current commitment of the NPRS ends in August 2004. As the timeframe under the existing fund agreement is likely to be extended, the discussion of the replenishment should be postponed until later.

J. Strengthening Monitoring and Evaluation (Issue 3)

27. Based on the observations at the Third Strategy Meeting highlighting the need to link the outcomes of individual projects under NPRS/PRF with development strategy and policy dialogue in each country or sub-regional context, the Issues Paper had proposed (i) NPRS/PRF alignment with CSP/Us; (ii) country/subregion-level monitoring indicators; and (iii) country-level external monitoring and evaluation (Appendix 4).

28. The Fourth Meeting decided that there was no need for NPRS/PRF-specific monitoring by country or sub-region. Rather, the NPRS/PRF results monitoring system should rely on, and strengthen if necessary, existing ADB-wide monitoring and evaluation system, such as TA performance report (TPR), TA completion report (TCR), CSP monitoring, and Country Assistance Program Evaluation (CAPE). Based on these sources, the PRF logframe attached to the Board Paper can be used as an overall tool for monitoring and evaluation of the NPRS and PRF. At the same time, individual project officers should be advised to strengthen their TA framework by linking up the TA-specific indicators with the goals and targets in CSPs, national poverty reduction strategies or poverty reduction strategy papers (PRSPs), poverty reduction partnership agreements, and MDGs in light of the set of indicators illustrated in the Issues Paper.

29. At the wrap-up meeting, ADB requested donors to share good practices on impact measurements in their trust funds with other organizations such as World Bank. ***DFID promised*** that it would provide some specific examples to ADB in the next few months. SARD and ECRD volunteered to adapt and apply such impact measurement schemes.

30. ***It was also agreed*** that the donors and ADB would explore the possibility of a joint Mid-Term Review of PRF (NPRS is already at the end of its term) in the latter half of 2004. Detailed plans will be discussed further at the Fifth Strategy Meeting in July 2004.

K. Continuous Harmonization of NPRS/PRF

31. Both ADB and the donors were pleased with the current arrangement of NPRS/PRF jointly processing, administering, and monitoring activities under these funds. At the wrap-up, the donors said that they were open to further integrating the two funds. Consolidation of the NPRS and PRF annual reports was discussed. But it was decided to continue to produce separate reports.

32. The Meeting also emphasized the importance of coordination and harmonization with other

trust funds. Donors also welcomed participation of other partners in NPRS/PRF.

III. DISCUSSIONS OF NEW PROPOSALS

33. Altogether, 18 proposals totaling \$10.26 million were submitted to the donors, including 1 requested for NPRS financing (\$0.3 million), 16 for PRF financing (\$9.1 million), and 1 for NPRS/PRF joint cofinancing (\$0.8 million). Of these, 10 proposals (9 PRF and 1 NPRS/PRF) were discussed in detail during the Meeting while 8 had been reviewed by the donors prior to the meeting. At the end of the Meeting, 13 PRF projects (\$6.99 million) and 1 NPRS project (\$0.3 million) were endorsed for funding⁵, 2 PRF (\$2.08 million) and 1 NPRS/PRF projects (\$0.8 million) were requested to provide further clarification, and 1 PRF project was referred to other funding sources. Further, 4 new concepts for future proposals were discussed briefly during the Meeting, and were received favorably and in principle. A detailed discussion of the proposals is in Appendix 5. Appendix 6 provides an overview.

IV. SPECIAL MEETING

34. A lunch-time seminar entitled “Sharing Experience of NPRS/PRF Projects” was organized on 28 January 2004 as part of the Meeting. Two case studies from the NPRS and PRF were shared with about 20 participants. In his presentation entitled “Reducing Poverty in the Pacific”, Stephen Pollard (PAHQ) presented findings of various poverty assessment initiatives (partially funded by the NPRS), including the perceptions of the poor about “priorities”. The presentation also highlighted how the findings were translated into ADB’s operational priority in the Pacific Region. Lingling Ding (MKGf) presented the methodologies and findings to date of an ongoing TA, *Preventing Poverty and Empowering Female Garment Workers in Cambodia* that started in October 2003. The TA has two phases – (i) situation analysis comprising an industrial study and social/gender analysis; and (ii) targeted pilot activities. As of now, preliminary findings of the two studies are emerging. The next step is to identify scenarios that may take place after garment quota was removed, and develop industrial and socioeconomic strategies along with scenarios in a consultative manner with the government, the industry employers, trade unions, workers, and NGOs.

V. CONCLUSION

35. In general, the participants, both from the donors and ADB, agreed that the strategic discussions at the Meeting were extremely useful in strengthening the effectiveness and relevance of NPRS/PRF, albeit some issues needed follow-up as summarized in Appendix 8.

36. The Fifth Strategy Meeting is tentatively scheduled on 27-29 July 2004.

⁵ At the time of the wrap-up, 1 PRF project (REG: Promoting Sustainable and Equitable Water Supply...) was part of the pending proposals. But a separate meeting with Alistair Wray, DFID on 30 January 2004 provided needed clarifications, and the proposal was therefore endorsed.