

MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR INDIA

On 7 June 2017, the Director General, Independent Evaluation Department, received the following response from the Director General, Strategy and Policy Department on behalf of Management:

I. General Comments

1. Management acknowledges that the Country Assistance Program Evaluation (CAPE) for India (2007–2015) has rated the sovereign and nonsovereign program for 2007–2015 as ‘successful’, and that ADB operations achieved their objectives. We appreciate that the recommendations have been provided from a constructive perspective. As our response below shows, we have already implemented or are in the process of implementing many of the recommendations.

II. Management Response

2. **Recommendation 1.a.** ADB needs to ensure that the new country partnership strategy (CPS) clearly specifies the approach that ADB will take to support the inclusive and sustainable growth agendas, as the 2016 CPS reforms now require.

3. *Management agrees.* The new CPS preparation procedure stipulates that it should be based on an integrated assessment of inclusive growth and sustainable development. Accordingly, the said assessment was thoroughly undertaken for India, following which initial consultations were held with government and other stakeholders, culminating into ADB’s Strategic Priority Meeting in February 2017. On these bases, the draft new CPS envisages establishing three strategic pillars, all of which aligned with the inclusive and sustainable growth agendas: (i) boosting competitiveness and job creation, under which programs would pursue investments in infrastructure and skills development so that economic growth and job creation accelerate hand in hand; (ii) inclusive provision of infrastructure and services that emphasizes on urban development, improved connectivity (transport and energy) to rural areas, and irrigated agriculture development to facilitate accelerated growth extending to lagging areas; and (iii) addressing climate change and increase climate resilience to directly tackle climate change mitigation (through renewable energy and other low-carbon investments) and climate change adaptation (through better natural resources use and building resilience against the impacts of disaster and climate change). We also envisage increasing the number of loans going to lagging states to address persisting gaps in infrastructure, services, and institutional capacities. We understand that the government is supportive of this direction.

4. **Recommendation 1.b.** ADB needs to increase environment and climate investment lending and Technical Assistance (TA) support in the years ahead, and particularly strengthen ADB support for climate change adaptation.

5. *Management agrees.* We concur that there will be strategic emphasis on this subject in the new CPS. For this, the new CPS intends to establish a specific priority pillar, based on which increased investment lending and TA support will be pursued, encompassing the relevant agenda items specified in para. 3 above. We specifically intend to support the government's efforts to meet India's Nationally Determined Contributions to COP 21, and improve resilience of its economy to the adverse impacts of climate change. We will continue supporting climate change adaptation and disaster risk management across all infrastructure sectors of our operations through promoting climate change and disaster resilient investments. We have already started a cluster TA for \$7 million to prepare investment projects—while pursuing urban climate change resilience—particularly in environmentally sensitive states and cities that require unique and customized approaches. We also envisage continuing support for flood and river erosion risk management incorporating the possible impacts of climate change, including structural and nonstructural measures.

6. **Recommendation 1.c.** ADB should intensify operational support for regional cooperation and integration (RCI) in India and South Asia and scale-up operations in line with the vision document developed by the South Asia Subregional Economic Cooperation (SASEC).

7. *Management agrees.* With the endorsement of the SASEC operational plan in 2016, and adoption of the SASEC vision document by the finance ministers of the member countries at a meeting hosted and chaired by the Finance Minister of India in New Delhi in March 2017, the stage is set for scaled-up ADB RCI operations in India and other SASEC member countries. Both strategic documents were drafted by ADB as SASEC secretariat for and on behalf of the member countries. The inclusion of Myanmar into SASEC in March 2017 was a welcome development and added the dimension of SASEC-Southeast Asia integration into RCI operations. India has been taking a more proactive leadership role in promoting mutually beneficial RCI in SASEC since 2011 through, among others, the initiation of the idea of a SASEC vision document and for pursuing RCI investments in the country. RCI operations in SASEC countries have indeed expanded since 2011. As of end-2010, the total value of RCI investments in SASEC countries stood at only \$3.5 billion. As of end-2016, the figure was \$9.1 billion (of which ADB loans/grants amounted to \$5.7 billion). The SASEC Operational Plan identified over 200 potential projects requiring about \$120 billion investments over the next 5–10 years. In 2016, ADB approved loan funding of \$1.4 billion for nine SASEC projects with a total cost of \$2.4 billion. For 2017–2019, ADB plans to provide loan assistance of about \$3.6 billion for 19 SASEC projects. The new CPS will highlight the importance of expanded RCI operations in India, and encourage continued leadership by India in moving forward the RCI agenda in SASEC in line with the SASEC operational plan and vision document.

8. **Recommendation 1.d.** ADB should strengthen knowledge needs identification, sharpen focus on cutting-edge global practices and innovation by applying a client oriented approach, and continue providing targeted capacity development support.

9. *Management agrees.* As with earlier recommendations, many of the suggested actions have already been initiated during the present CPS period. The

most prominent example is a comprehensive economic corridor strategy studies covering states across the east coast, which is strongly driven by the clients and have been identifying priority strategy and policy reforms, and a range of strategic investment projects to boost the industrial development and employment generation. The examples of cutting edge global practices recently introduced include trenchless digging technology applied in congested urban areas, 24x7 water supply IT-based operation system, innovative solar power technologies, smart grids, and low-cost easy-to-implement riverbank erosion control structure. ADB's RCI-related knowledge works since 2013 are among the most downloaded India-related publications. As India is undergoing a rapid economic transformation and is encountering complex development challenges, ADB is expected to play an increasingly important role in providing knowledge solutions in the forthcoming CPS period. We are preparing a comprehensive country knowledge plan for India (2017–2021) to set out the specific knowledge products to meet the country's needs, in line with the sector and thematic priorities of the CPS, and the government's priorities and flagship programs.

10. We envisage that the role of Capacity Development Resource Centre, jointly established by the government and ADB, will be further strengthened to provide critical training and cross-learning opportunities, with documentation of advanced implementation and related practices as reference knowledge base. International best practices and new technologies will also be explored and introduced in partnership with reputed knowledge partners. ADB will continue to pursue capacity development mainstreaming in its lending operation, for which a requisite cost may be set aside with clear output targets in implementation capacities and policy and institutional changes. The capacities and knowledge, once developed and retained within the partner agencies, will be used for cross learning with less advanced agencies, state departments, and central ministries.

11. **Recommendation 2.a.** Review the bottlenecks to the optimal performance of the multitranche financing facility (MFF) programs, and more generally review the disbursement ratios in recent years. Consider increasing decentralization of decision making process and resources to the resident mission and creating a regional hub.

12. *Management agrees.* We agree to assess and address factors affecting the optimal performance of MFF, and measures to enhance disbursement ratio for India operations (towards ADB's corporate target). We generally agree on the observation by IED shared by the government on the similar performance of stand-alone projects and MFF subprojects. This is despite the fact that MFF subprojects potentially have more opportunities to improve readiness. The specific and immediate measures may include closer review of the readiness status (e.g., through tripartite portfolio review meetings) and applying higher readiness standards for MFF subprojects for second tranche and onwards. We will comprehensively review the reasons and come up with actions. Regarding the disbursement ratio that still have gaps with ADB's corporate target, we will also undertake a systematic analysis of the disbursement performance and measures to be taken for pipeline building, project preparation, appraisal, implementation, monitoring, and control. We intend to include structured steps and measures in the new CPS based on the broad assessments in this regard.

13. We also agree on the need and opportunity for considering the strengthening of INRM with deployment of necessary human and financial resources. INRM is endowed with high-level of expertise of its national officers, and well versed to provide day-to-day advice and support for implementation, and handle management of complex and large-scale structure design, procurement, and contract management. Further delegation of project implementation and approval authority would be considered in the context of initiating and operationalizing the new ADB Procurement Policy. As to the staffing level, Private Sector Operations Department (PSOD) is in the process of substantially increasing the outposted staff from four (two international staff [IS] and two national staff [NS]) in 2016 to 18 (nine IS and nine NS) in 2019. As to sovereign side, six outposted IS have been deployed to cover energy and urban sector operations, and procurement and legal support to all projects. While they are mainly focusing on strengthening the country operations in India, engagement in other countries may be increased in consultation with the government and other regional development member countries.

14. **Recommendation 2.b.** ADB should strengthen support for the implementation of gender action plan of projects, and for their monitoring as well as identification, dissemination, and replication of good practices.

15. *Management agrees.* The CPS will outline ADB's commitment to strengthening the gender equality and social inclusion (GESI) results of ADB-assisted projects. This will be achieved by pursuing quality social and gender analyses at design, robust GESI action planning reflected into monitoring framework, and provision of adequate human and financial resources for timely and effective implementation of project activities. Additional grant and TA resources will be mobilized to pilot-test innovative approaches and build knowledge and capacity to design, implement, and deliver GESI outputs and outcomes. Operationally relevant lessons will be documented and disseminated in capacity development and lateral learning events conducted at central and state level. Systematic monitoring of gender equality outputs, outcomes, and impacts of Gender Equity and Effective Gender Mainstreaming projects will be pursued; and additional specialized consulting services mobilized, as needed. Exchanges with government agencies, development, and knowledge partners will be deepened.

16. **Recommendation 2.c.** ADB would need to strengthen the capacity of financial intermediaries to better implement and monitor frameworks for improved ADB's Public-Private Partnership (PPP) subprojects' implementation, results and compliance with safeguards, and work with government and other stakeholders to address identified constraints to PPPs and strengthen the regulatory framework and institutional capacity for PPPs.

17. *Management agrees.* ADB has already provided substantial capacity building support to strengthen the institutional capacity of financial intermediaries (FIs) in India in terms of their environmental and social assessment skills of subprojects, in particular to India Infrastructure Finance Company Limited, Indian Renewable Energy Development Agency Limited, and Punjab National Bank. ADB will continue to collaborate with this type of institutions. For all FI interventions, ADB carries out a comprehensive diagnostic review of the operations of the FI during the project preparation stage to identify weaknesses and areas for

strengthening. The results from this exercise are then incorporated into the design of a TA to provide capacity building in various areas ranging from risk management, PPP underwriting standards, treasury operations, financial structuring, and safeguard due diligence, among others.

18. In the context of the new CPS, we also intend to support the government's priority of reviving and enhancing private financing of infrastructure projects, including PPP. We will continue our long-term partnership to strengthen the PPP policy and institutional framework and capacities, such as establishment of dedicated PPP institutes, strengthening of state level PPP set up and appraisal systems, and tools and instruments to strengthen PPP operations. We will also pursue (i) enhancing bankability of urban infrastructure to attract private sector financing, (ii) exploring new contractual modalities such as annuity and long-term operation and maintenance contracts, (iii) strengthening of sector level regulations, (iv) development of capital market with innovative financial instruments, and (v) exploring opportunities for providing transaction advisory services in complex PPP projects.

19. **Recommendation 2.d.** ADB should continue to strengthen measures to address the high cancellation rate of India nonsovereign operations projects, including strong quality-at-entry reviews.

20. *Management agrees.* While PSOD operations are market dependent, and some cancellations are beyond our control, certain actions are being taken to reduce the probability of cancellations: (i) PSOD regional management team has instituted a thorough review of all investment proposals upfront, including analysis of key risk factors which may affect project progress; (ii) PSOD staff are required to have an early engagement with clients on potential "deal breaker" issues, such as safeguards policy compliance, loan pricing and covenants, equity valuation, etc.; (ii) Term sheets are required to be signed by clients before the project can be taken up for consideration by the Board; and (iii) PSOD is exercising stricter quality control on seeking approvals for programmatic assistances, which have a comparatively limited up front visibility on signing and disbursement, and is instead increasing focus on discrete projects/borrowers. PSOD has reformed its investment process and has made it more streamlined to market realities, thereby cutting down on processing timelines. This will prevent clients from seeking alternate sources of financing, even *after* committing to work with ADB, due to delays in ADB process.