

**ASIAN DEVELOPMENT FUND (ADF)
ADF IX DONORS' MEETING
Copenhagen, 9-10 October 2003**

DEVELOPMENT EFFECTIVENESS IN ADF IX

**Asian Development Bank
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ABBREVIATIONS

ADB	—	Asian Development Bank
ADF	—	Asian Development Fund
AfDF	—	African Development Fund
CSP	—	Country Strategy and Program
DMC	—	Developing Member Country
EACA	—	Expanded Advanced Commitment Authority
IDA	—	International Development Association
IMF	—	International Monetary Fund
MDB	—	Multilateral Development Bank
MDG	—	Millennium Development Goal
NGO	—	Non-Government Organization
ODA	—	Official Development Assistance
PRC	—	Peoples' Republic of China
SWAP	—	Sector Wide Approach
UNDP	—	United Nations Development Program

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. **Greater effectiveness is the theme.** Donors are concerned about strengthening development effectiveness. ADB attaches high priority to this concern and has taken important steps to become a more effective organization. But donors have emphasized that more needs to be done. At an organizational level, effectiveness requires (i) clarity about goals, (ii) resources to achieve those goals, and (iii) processes that both deliver results efficiently and ensure accountability. In soliciting donors' views about the directions in which ADB must move to become a more effective institution this paper brings these elements together. The issue of resources in ADF IX will be taken up in more detail in a separate paper at a later ADF meeting.

2. **Structure.** In Section II, the context for ADF IX is set in terms of the region's achievements, challenges and prospects. The continuing relevance of ADF is explained in Section III. Section IV sets out key principles to guide enhanced operational effectiveness. Section V examines the institutional steps that are being taken to translate key principles into action. Important resource issues within ADF IX are foreshadowed in Section VI. The paper ends by raising issues for donor consideration.

II. CONTEXT

A. Achievements

3. **Poverty reduction in the Region is unrivalled.** Asia and the Pacific enjoyed unrivalled success in reducing income poverty over the period 1990 to 2000. The incidence of dollar-a-day poverty fell from 33% to 23%.¹ The absolute number of poor people in the Asia and Pacific region declined from 911 million in 1990 to 750 million by the end of the decade. Much of the success was attributable to improvements in the Peoples' Republic of China (PRC) and India, but there was a more general pattern of falling poverty across the region. Income poverty trends regressed only in Central Asia and in Pakistan. In these places, growth was slow and inequality increased.

4. **Trends on non-income poverty were mixed.** Trends in non-income dimensions of poverty were more mixed.² While access to safe water improved, Asia fared badly in eliminating hunger. The proportion of underweight children fell only slightly from 35% to 31% during the 1990s. Slow progress in reducing maternal deaths, and other indicators, suggests that significant gender discrimination remains. Education achievements, as measured by the net primary school enrollment rate, were also modest. Across sub-regions, the performance of South Asia lagged.

B. Challenges

5. **Meeting the MDGs.** The Millennium Development Goals (MDGs), agreed by over 150 Heads of State or Governments in September 2000, serve to focus attention on the challenges ahead. The MDGs set targets for important income and non-income indicators of poverty. If the Asia and Pacific region misses the MDGs, they cannot be achieved at global level either.

¹ S. R. Osmani, *Poverty in Asia in the 1990's*, 14th August 2003, mimeographed, University of Ulster. Background paper prepared for the *Review of the Poverty Reduction Strategy*.

² United Nations Development Program (UNDP), *Human Development Report 2003*, New York.

6. **Poverty.** Despite the region's unique success in reducing poverty, it is still home to almost two-thirds of the world's poor. Poverty is largely concentrated in South Asia, but incidence is still high in many other places. Even where the incidence of income poverty has fallen steadily, there remain deep obstacles to social progress. Tackling these problems will require refocusing priorities, as well as more resources.

7. **Economic growth.** Economic growth is crucial if the resources needed to meet the MDGs are to be generated. By creating jobs and raising real wages for the unskilled, growth helps the poor. Growth can also generate an important fiscal dividend that can be used to address social needs. There are a number of challenges to sustaining or accelerating growth. First, gaps in physical and social infrastructure need to be addressed. Private sector involvement in infrastructure provision has not matched earlier expectations. Second, notwithstanding discernable improvements in policy and institutional performance, more is needed to nurture a vibrant private sector and competitive markets. Finally, there are important structural impediments to growth. Developed countries can help by improving access to their markets and technology. Where remoteness and small market size limit opportunities, as in the Pacific, sub-regional cooperation efforts promise benefits.

8. **Conflict and other threats.** Maintaining security and peace has emerged as a serious challenge for the region. Conflicts have had devastating consequences, setting economic and social achievements back and diverting resources from other pressing needs. Insecurity unnerves investors, inhibits movement of goods, people and capital, and raises transactions costs. The spread of communicable and infectious diseases also poses dangers. Some countries have shown how such threats can be successfully combated, while others have been slow to react. Moreover, pressures on resources and Asia's fragile environment continue to build. Better policies are needed, including those that price natural resources appropriately.

C. Prospects

9. **Heightened uncertainty.** Uncertainties are perhaps now more pronounced than at any point during the last decade. The way in which geopolitical events unfold will have an important bearing on prospects for the region. Prospects will also depend crucially on whether progress can be made in improving the terms on which the poor countries of the region engage with the global economy. But there are some encouraging underlying trends. Falling population dependency rates in many countries, improved policy performance, a move towards more open economies, and rapid technological advances all suggest scope for continued growth and improved quality of life.

10. **Income poverty should recede.** In the context of the MDGs, extrapolation of the historical relationship between growth and income poverty suggests that, at a regional level, the incidence of income poverty may be halved by 2015. But even if the MDG target for the region were met, there would likely remain countries and large areas within countries where the target would be missed.

11. **Progress on non-income poverty may be slower.** The outlook for non-income poverty targets is not as favorable. Without accelerated progress, Asia risks missing targets for hunger, child mortality, access to sanitation, gender and the environment.³ An unfavorable starting point means that South Asia is likely to lag most. Among other factors, domestic budgetary constraints in many countries limit what can be achieved.

³ UNDP 2003, *op cit*.

III. ADF IX's RELEVANCE

12. **ADF is a key resource.** ADF is an important resource for helping ADB's poorest countries confront the complex challenges they face. Over the period 1991-2001, ADF resources constituted 15% of total official development assistance (ODA) to ADF eligible countries. ADF resources not only help ease resource constraints, but also contribute to the conditions that enable countries to sustain their own development efforts. There are many ADF success stories, examples of which were provided to donors during the Midterm Review of ADF VIII. Post-evaluations of ADF have concluded that past replenishments have generally met their objectives.

13. **Poverty reduction efforts are resource-constrained.** Despite some success in reducing income poverty, ADF countries remain poor. Their ability to tackle income and non-income dimensions of poverty is constrained. Domestic saving rates are typically low, there is little or no access to international capital markets, and debt service capacities are limited. Where ADF-eligible countries have access to capital markets, terms are rarely conducive to financing long-term development projects.

14. **Unanticipated demands.** Demands, unforeseen at the time of the ADF VIII replenishment, have emerged. In attempting to address post-conflict, security and peace concerns, resources have been diverted from other poor ADF countries. Indonesia, which was once on the watch list for graduation, is still recovering from reversals caused by the crisis.

15. **Constraints on the private sector.** The private sector's appetite for investment in physical and social infrastructure has been more limited than was expected. Following Asia's financial crisis, investment flows have remained highly concentrated in a few countries and sectors. Underlying institutional and policy difficulties explain some of the hesitancy and need to be resolved. Meanwhile, the public sector must move to fill widening gaps.

16. **MDGs.** The global agenda has also moved on. The global development community is now united in its focus on the MDGs. However, the MDGs appear to be at risk, and in partnership with others, ADB must work to support them. The Zedillo Commission (UN) concluded that if the MDGs are to be met substantial additional donor assistance will be needed.⁴

17. **Expanded agenda.** At an institutional level, too, the agenda has become enlarged with the adoption of a substantial number of new policies. Implementing effective assistance programs has become more complex. Tightened safeguard provisions and improved participatory processes contribute to better projects, but also impose large costs on the institution and the borrower.

IV. IMPROVING EFFECTIVENESS

A. Goal, Strategy, and Competencies

18. **Overarching goal.** Although uniquely successful in reducing poverty over the 1990s, there are still more poor people in Asia and the Pacific than in any other region of the world. Eliminating poverty in Asia will, even on optimistic assumptions, take at least another

⁴ The Commission estimated that \$50 billion annually would be needed on a global level, UNDP 2003, *op cit*.

generation. In this context, the *Review of the Poverty Reduction Strategy* reaffirms ADB's overarching goal as poverty reduction.

19. **Strategy.** In striving for greater effectiveness, ADB remains committed to a comprehensive and long-term approach to tackling development problems. ADB's focus will continue to be largely country-centered, but support for regional public goods, sub-regional cooperation, and small island economies will remain important and distinctive institutional mandates. ADB will seek an appropriate balance between interventions that target directly poor beneficiaries and those that support a more broadly based approach to poverty reduction.

20. **Competencies.** ADB has more than 37 years of experience with development in Asia. As a multilateral institution, ADB helps forge a stronger nexus between global and regional interests. As an institution serving the region, ADB enjoys a close relationship with its DMCs. This has helped move forward difficult and sensitive agendas (e.g., governance). ADB has also pioneered cooperative efforts that have led to improved trust and closer integration among neighbors, and the cross-fertilization of ideas incubated within the region. Looking to operations, ADB remains a good projects bank. Measured in a variety of ways, ADB is highly cost effective. A high proportion of shareholder dollars reach intended beneficiaries and ADB plays a strong catalytic role in resource mobilization.⁵ Finally, ADB has demonstrated a capacity to respond quickly to post-conflict needs.

B. Progress

21. **Focus.** ADB has taken a number of important steps towards greater organizational effectiveness. Decentralization and delegation of authority, under the *Resident Mission* policy, and institutional reorganization and allied changes in business processes have improved country focus and led to clearer lines of accountability. At the same time, there is now much greater clarity of purpose and strategic coherence centered on the overarching objective of poverty reduction. The *Review of the Poverty Reduction Strategy* illustrates how the poverty focus has been reflected in measurable changes in preparation and design of strategies and projects. A stronger thematic focus is also beginning to emerge. For example, in 2002, 48 out of 85 projects (56.4%) had identifiable gender elements.

22. **Performance.** ADB has also made progress on integrating performance considerations in operations. Country performance assessments and ratings now play a significant role in the allocation of ADF resources. As experience with the system grows, assessments are gradually being used to calibrate country strategies and programs (CSPs). Within the framework of country strategies, there is now a clearer focus on objectives and monitoring.⁶ Since 2002, all CSP updates have incorporated information on MDG targets and other indicators. Improved use of project evaluation results and project performance management systems are helping create better projects.

23. **Partnerships.** DMC governments have expressed the view that ADB is becoming a more effective partner.⁷ ADB is also working hard to partner better with other donors. There is

⁵ For each dollar of ADF resources loaned over the period 1990 to 2002, ADB mobilized an additional 32 cents in co-financing (Strategic Policy and Planning Department, own estimates).

⁶ Full CSPs and national poverty reduction strategies have not yet been prepared for all ADF borrowers. Six CSPs have been completed to date. Six more are due for consideration and approval before the end of 2003. Another three CSPs are scheduled for 2004, as well as a joint strategy for the 12 Pacific DMCs. In the absence of full CSPs, ADB's poverty partnership agreements have set goals and indicators and provided monitoring frameworks.

⁷ Views expressed and recorded during consultations on the *Review of the Poverty Reduction Strategy*.

now greater strategic, operational and process coherence among donors. A joint report by the five multilateral development banks (MDBs), sets out achievements and identifies priorities for moving forward.⁸ ADB is also working more closely with civil society. For example, half of all ADB projects in 2002 used participatory approaches and sought the involvement of project beneficiaries in design. An NGO Center was established at ADB in 2001.

C. Challenges

24. **Results focus.** Despite these accomplishments, significant challenges remain. While noting improvements in performance, donors have observed that ADB is still insufficiently results-oriented. Donors have emphasized the role that strengthened partnerships, streamlined processes, and improved monitoring and evaluation capacities play in serving development effectiveness. Donors have also called on ADB to take steps to improve transparency in decision-making, provide for a meaningful delegation of responsibilities and authority, and exercise greater control over planned levels of ADF operations.

25. **MDGs.** In a context where ADB is still working hard to fulfill existing mandates, the MDGs pose a new challenge in terms of an appropriate strategic and operational response. Within ADB, work is underway to see how strategies and programs might better serve the MDGs. Given the scale of the MDG challenge, closer partnerships and coordination will be needed in areas such as planning, investment and monitoring.

26. **Resources and relevance.** As a consequence of an expanded mandate, resources have come under pressure. At a corporate level, new areas of responsibility have typically meant additional areas of responsibility. As resources become more thinly spread, threats to relevance, influence and impact emerge.

D. Improving Effectiveness

27. **Balancing performance and needs.** Within these broad parameters, enhancing effectiveness requires making choices about where resources best serve agreed objectives. Across programs, this requires balancing performance against needs. The *Review of The Policy on Performance-Based Allocation*, which has now been initiated, will re-examine this important issue. The completion of Sub-regional Strategies and Programs and approval of the policy on *Emergency Lending*, also in process, will provide frameworks within which sub-regional and post-conflict allocations can be scrutinized and anchored more firmly in performance and results.

28. **Country ownership.** Within programs, decisions about strategy need to be more clearly reflected in principles of country ownership. If countries are not in charge, difficult changes are unlikely. Therefore, it is important that ADB assistance adheres closely to homegrown initiatives. Under the new business processes, ADB's country strategies should be derived from the national poverty reduction strategies. Where a country's ability to formulate its own national poverty reduction strategy is limited or a sense of ownership is lacking, ADB must continue to support efforts to strengthen national capacities and participation.⁹

⁸ African Development Bank, ADB, European Bank for Reconstruction and Development, Inter-American Development Bank, World Bank, *Recent Progress in Cooperation Among Multilateral Development Banks*, April 2003.

⁹ To date, ADB has provided 13 advisory technical assistance grants to assist DMCs formulate their own poverty reduction strategies.

29. **Partnerships.** Meaningful partnerships expand countries' choices and allow better alignment of activities with comparative institutional strengths. Where partnerships work well, synergies that magnify the cumulative impact of assistance often follow. In a context where institutional mandates are broad and complex, resources are limited and the challenges enormous, strengthened partnerships permit greater selectivity. They also allow scarce resources to be better leveraged, without sacrificing comprehensiveness or strategic coherence at a national level. In becoming a more effective institution, ADB must become more realistic, and leave to others what they can do best.

30. **Learning.** At an operational level, ADB's evaluation lessons are critical for improving project and program quality. Institutional policies and strategies also need to be periodically examined to ensure their continuing relevance. At regional and global levels, ADB must network more effectively so that it may draw on technical and policy knowledge and share its knowledge with others. A capacity to acquire, share and apply knowledge is crucial for not just for institutional effectiveness but also allows clients to benefit more readily from the experiences of others.

31. **Performance management.** Achieving better results requires improved institutional performance. Many elements of performance management systems are already present in ADB, but some are more developed than others and systems are not fully integrated. Drawing on performance information to improve decisions will require strengthened efforts to monitor and measure, a clearer delineation of accountabilities, an appropriate alignment of processes and management structures, and supporting incentive structures. The complex nature of development assistance programs presents special challenges for performance management, including difficulties of monitoring and measurement, attribution, and aggregation across different activities.

V. INSTITUTIONAL DIRECTIONS

32. **Aligning strategy.** The *Review of the Poverty Reduction Strategy* is still in process. The *Review* will be completed by November 2003. Some of the main issues from the *Review* will be set out in a separate presentation to donors.

33. **Serving the MDGs.** A concurrent review is examining how ADB can better serve the MDGs. A particularly important question that will need to be addressed is the balance ADB should strike between attempting to target MDG indicators as opposed to focusing efforts on how the goals can best be achieved through growth, social development and good governance. Initial findings suggest that poverty targeting under the *Poverty Reduction Strategy* had some unintended consequences.¹⁰ Meanwhile, ADB is contributing to initiatives to monitor actions and policies for achieving the MDGs.¹¹ These initiatives are still at an early stage, but country policy and institutional assessments may acquire increased prominence in this context. Within the framework of CSPs, country monitoring of MDG indicators will continue to be strengthened.

¹⁰ For example, many staff appear to have interpreted targets at a country level, rather than, as intended, at an institution-wide level. Project staff also interpreted "pro-poor" to mean that projects needed direct poverty components.

¹¹ Development Committee, *Achieving the MDGs and Related Development Outcomes: A Framework for Monitoring Policies and Actions*, DC2003-0003, Washington, D.C., March 2003. World Bank and IMF, *Global Monitoring of Policies and Actions for Achieving the MDGs and Related Outcomes: Implementation Action Plan*, Washington, D.C., July 2003.

34. **Rewarding Performance.** A *Review of the Policy on Performance Based Allocation* has now been initiated. Some donors have expressed concern that performance considerations have not featured prominently enough in implementation to date. The scope of the review will be outlined in a separate presentation to donors. As part of the review, careful consideration will be given as to how ADB might better assist weakly performing countries.

35. **Results Based Management.** ADB is currently examining the issues that would be raised by adoption of a results based management system. A paper, drawing on the experience of other institutions, is currently under consideration. Management is expected to express its views on next steps soon.

36. **Accountability.** The review of the new business processes, now underway, provides an opportunity to consider accountability and internal governance issues in the context of the reorganization of the Bank. A review of the *Disclosure Policy* is also in process. At a project level, ADB has already taken some important steps that increase accountability. Board approval of the new *Accountability Mechanism* in May 2003 clarifies ADB's obligations and responsibilities to project beneficiaries and stakeholders and provides processes for problem solving and resolution.

37. **Evaluation.** Proposals for an independent Evaluation Department will soon be presented to ADB's Board. A separate presentation on ADB's evaluation function will be given to donors. In promoting objectivity, an independent evaluation function will help identify "what works".

38. **Harmonization.** The High Level Forum on Harmonization held in Rome in February 2003, set out principles to guide harmonization. Pilot exercises on the harmonization of procedures and processes on environmental impact assessments, safeguard provisions, procurement, financial and portfolio management and public expenditure reviews undertaken in Viet Nam and in the Philippines were encouraging and will now be extended to others. Building on earlier experiences in the Kyrgyz Republic, Sri Lanka and Viet Nam, ADB is now working closely with the World Bank and the Department for International Development of the United Kingdom to align respective strategies in Cambodia. Future opportunities for collaboration and coordination on strategies will be pursued proactively.

39. **Knowledge management.** The Knowledge Management Framework, currently in preparation, is an important step towards strengthening knowledge management within ADB. The issue of the financing of knowledge services is also important in a context where constraints on technical assistance resources have crowded out some activities. Strengthening newly established knowledge networks remains a priority.

40. **Instruments.** Sector-wide approaches (SWAPs) show great promise for enhancing effectiveness. However, they presume strong local capacities and require that stringent policy and fiduciary conditions be met up front. ADB's approach to SWAPs will be based on experience gained in Bangladesh and Cambodia, as well as on the experience of other institutions. In its programmatic lending operations, ADB will be more flexible in its approach and aim for simpler yet meaningful conditionalities. Greater attention needs to be given as to the best blend of instruments to serve the needs of poorly performing countries.

VI. RESOURCES IN ADF IX

41. ***New demands have emerged.*** Adequate resources are an important constituent of organizational effectiveness. New demands that were unanticipated at the time of the Seventh Replenishment have presented challenges during ADF VIII. An additional contribution from Spain to ADFV III helped ease, but did not alleviate, financial constraints. Financing post-conflict needs in Afghanistan and supporting Sri Lanka's peace process has, in effect, reduced the pool of resources available to other poor DMCs. In a context where few, if any, countries are likely to graduate from ADF assistance over the medium-term, and some could be reclassified in a way that increases calls on resources, demand will remain large over the period of ADF IX.

42. ***Generating resources.*** Substantial resources will be required to meet demands. Donor contributions will need to be matched by efforts to improve internal resource mobilization to maximize prudent levels of the expanded advance commitment authority (EACA). It is important that multilateral support for ADF is retained, and possibly broadened, and that fair burden-sharing be preserved. These and related issues will be examined in more detail in other planned papers on demand for ADF IX resources and the financial management of EACA.

43. ***Concessionalality.*** In a context where recent replenishments of IDA and the AfDF have introduced grants, donors' interests in greater concessionalality within ADF need careful consideration. On one level, concessionalality should be examined from the perspective of development effectiveness and, at another level, in terms of the viability and sustainability of the Fund. Legal and regulatory considerations will also arise.

VII. ISSUES FOR DONOR CONSIDERATION

44. ***Mandates and partnerships.*** ADF IX presents an opportunity to consolidate existing mandates, building on successes and improving in areas where there are weaknesses. ADB needs to sustain stronger partnerships to address effectively existing mandates. Efforts to strengthen organizational effectiveness may prove difficult to manage in a context in which the institutional agenda continues to expand. Donors' views are requested on what new initiatives, if any, ADB would need to consider within the framework of ADF IX. If new responsibilities are to be added, what existing mandates should now be accorded lower priority?

45. ***The role of the MDGs.*** The *Review of the Poverty Reduction Strategy* reaffirms the relevance of growth, social development and governance to effective poverty reduction efforts. Recent proposals on the monitoring of actions and progress towards the MDGs have endorsed the relevance of these "pillars" (and added environmental sustainability as a fourth).¹² In light of the Development Committee's views, do donors consider the pillars an effective vehicle for moving forward on the MDGs?

46. ***Resources for the MDGs.*** Selectivity does not necessarily mean doing less, but rather sustaining commitment to more effective programs and projects. Does ADF have access to the resources required to be a fully effective development partner in addressing donors' medium and longer-term strategic interests in the MDGs, while furthering development of the poorest countries of the region?

¹² Development Committee, 2003 *op cit*.

47. **Concessionality.** Developing Asia is home to the largest number of the world's poor, and investments in a range of public and merit goods would bring immediate and longer-term benefits to poor people. Would greater concessionality within ADF allow the Fund to be more relevant and effective in overcoming poverty in parts of developing Asia?

48. **Performance Management.** In the context of public sector reforms, results-based management systems have proven to be useful for improving service delivery. The experiences of results-based management systems in MDBs, however, have been mixed. One reason for this is that MDBs deliver complex services, some of which are intangible, and many of which are joint products. Nevertheless, in striving for improved organizational effectiveness, results based management principles and tools remain relevant. A paper on results based management will be presented at a later meeting. Donors' preliminary views on how results-based management systems might best serve greater organizational effectiveness are invited.