

MANAGEMENT RESPONSE TO THE THEMATIC EVALUATION STUDY ON ADB'S SUPPORT FOR INCLUSIVE GROWTH

On 19 March 2014, the Director General, Independent Evaluation Department, received the following response from the Officer-in-Charge, Managing Director General on behalf of the Management:

I. General Comments

1. We welcome the Thematic Evaluation Study (TES) of the Independent Evaluation Department (IED) on ADB's Support for Inclusive Growth, and appreciate the TES acknowledgement of recent reforms to better promote inclusive economic growth in ADB operations (para 109 reference to revised results framework, and paras 86, 124 and 280 to Staff Guidelines on Inclusive Economic Growth in the CPS).

2. The ongoing midterm review of Strategy 2020 (MTR) proposes to strengthen operations that contribute to inclusiveness, including those relating to infrastructure benefitting lagging areas, education, health, social protection, financial inclusion, inclusive business, and food security and agriculture. The MTR also proposes that ADB seek to further increase the impact of infrastructure operations on inclusive economic growth by strengthening project designs and monitoring project outcomes, and by building complementarities with other projects.

3. However, we strongly believe that inclusive economic growth should be seen and assessed in the wider context of ADB's strategy and operational program at the country-level as reflected in the country partnership strategy (CPS) and not at the level of individual projects. In this regard, we note the importance of improving the demonstration of how the country program defined in the CPS contributes to inclusive economic growth. This will be supported by the Staff Guidelines on Inclusive Economic Growth in the CPS.

4. Investment in infrastructure which supports high and sustainable growth is a prerequisite for inclusive economic growth and for creating and expanding economic opportunities. In addition, while direct impacts are important, indirect effects, which may take a longer time to show, should not be neglected. In fact, in many cases, such indirect effects have more significant and far reaching impacts on inclusive growth. An approach that excessively focuses on inclusiveness outcome at the project level, without due consideration to the country's overall development context, may undermine investments in those projects that support the realization of growth potential of an economy. Individual projects should be looked at within the framework of a CPS, which provides a strategic approach and medium term program to support the overall inclusive growth outcomes, based on a thorough assessment of a country's development plan.

5. Further, the TES fails to appreciate that inclusive economic growth is the outcome of a package of development interventions, including policy and institutional reforms, and not just individual investments. In addition, some of its conclusions are based on assumptions without a sufficiently convincing logical

ground. For example, the TES asserts that operational areas outside five core areas, such as agriculture and health, “have a more direct impact on inclusive growth”. This assertion is disputable. Better health care could provide people with basic conditions for having decent jobs, but may not be sufficient for inclusive growth without available job opportunities created.

II. Specific Comments

6. The TES notes the difficulty in measuring the contribution of any project to inclusive economic growth (para 4). Despite the acknowledgement of such difficulty, it concludes that the concentration of ADB’s operations in the five core areas made ADB primarily contribute to growth, at the expense of operations in other areas that contribute directly to inclusive economic growth. Based on this observation, the TES recommends more balanced support among the three pillars. We note some logical gap between the above-cited acknowledgment of difficulties and the recommendation. Having said that, we would like to note that the 2013 Development Effectiveness Review shows that in terms of total financing pillar 2 (inclusive access to opportunities) of inclusive economic growth has increased to 42% over the period 2011-2013 (from 35% in 2010-2012), and in terms of numbers of projects, pillar 1 (creation of opportunities) and pillar 2 are reasonably balanced at 49% and 47% respectively.

7. The TES considers inclusiveness mostly based on the amount of lending allocation. However, we note that while loan amounts for agriculture, education and health tend to be small in Viet Nam for example, they resulted in good output and outcome achievements. The TES should factor in ADB’s non-lending activities, such as TA operations and knowledge work. This may lead to different conclusions on the inclusiveness of ADB’s support. There are many technical assistance and knowledge work that support pillars 2 and 3 (social protection) of inclusive growth.

8. In Tajikistan, the TES suggests that ADB provide greater support in industry and trade promotion (para 231), without further examination of why ADB’s ended its earlier support for investment climate reforms. The same recommendation is made for Mongolia (para 247), without exploring the role of other donors in this area and government priorities. In the Philippines, the TES recommends that ADB expand its support in agriculture (para 182) and technical and vocational education (para 183), without a clear understanding of lessons learned from past ADB operations in the relevant sectors, government priorities and other donor initiatives. In Viet Nam, singling out ethnic minorities in ADB’s operations (para 208) may not be the most effective approach as the impact may be limited compared to other types of interventions.

9. Para 273 states that the choice of priority areas, in terms of lending to support inclusive economic growth “may” need to be determined at the country level to ensure that the mix of interventions is well attuned to the challenges to inclusive economic growth, which vary from one economy to another. Priority areas should be determined at the country level.

III. Comments to Recommendations

10. (i): *Inequality*. We agree that ADB needs to base its support on particular country needs and have special attention to inequality trends. This is reiterated in the ongoing MTR. We also agree that inclusive economic growth diagnostics in the CPS should cover measures the government is taking to address both poverty and inequality. The MTR also proposes ADB's approach at the country level, articulated in the CPS, be built on, among others, a rigorous analysis of inequalities and underlying causes.

11. (ii): *Benefits to lower income groups*. While we do not agree that projects need to be poverty targeted to achieve inclusive growth, we do agree that design of infrastructure projects could be more inclusive. Conscious efforts are being made in this regard. When rural development projects are designed, the need to link project areas to national and provincial artery roads and the size and profile of beneficiaries are carefully reviewed and reflected in the project scope. In working on development of secondary cities which often directly contributes to inclusiveness through hosting rural migrants and serving as growth centers with better opportunities for employment and income, attention is also paid to the risk of exposing the poor/near poor migrants to the adverse impacts of urbanization. As mentioned in paragraph 2 above, the MTR proposes to make infrastructure projects better support inclusive economic growth.

12. (iii): *Country diagnostics*. We agree that stronger inclusive economic growth diagnostics are needed in CPS to properly assess inclusive economic growth needs at the country level. We agree that the relative emphasis among the three pillars of inclusive economic growth and selection of priority sectors should be based on a strengthened rationale and analysis presented in the CPS. As to the point raised in the TES that often CPSs lack appropriate responses to human development and social protection support needs identified, we reiterate our view that our support to countries should lie at the crossroads of the country's development needs, the government's own program, revealed demands for external assistance and our comparative advantage, under the consideration of what other partners are providing to support.

13. (iv): *Partnership*. We agree that country teams should play a bigger role in synergizing ADB's country programs with government programs and the programs of development partners. We also agree that ADB's capacity for developing, facilitating and monitoring synergies with complementary programs and projects of other donors should be strengthened. Some ongoing efforts are worth noting. For example, in Viet Nam, government-development partner coordination and consultation mechanisms, including the Viet Nam Development Partnership Forum and sector working groups, as well as bilateral dialogue, helps develop a clear division of labor in sector engagement and project selection to avoid unnecessary duplication and enhance synergy.

14. (v): *Tracking of country program progress*. We agree that ADB needs to improve the quality of its tracking of the performance in its inclusive economic growth interventions. Under the inclusive growth guidelines, the CPS is required to follow the inclusive economic growth framework, which includes a suggested list of inclusive economic growth indicators to monitor performance in this area.

We support inclusion of national targets for the inclusive growth indicators, where available, in the CPS. Monitoring of progress on these targets could be undertaken as part of the annual country operations business plan updating exercise. We do not support a scorecard for inclusive economic growth indicators as part of the country portfolio review.