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THE DEVELOPMENT EFFECTIVENESS AGENDA IN ASIA

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P R O C E E D I N G S

MR. KHARAS: So good afternoon, everybody. Welcome to this session on the Development Effectiveness Agenda in Asia. My name is Homi Kharas. I'm the Deputy Director of the Global Economy and Development Program here at Brookings and a Senior Fellow. And I'm going to be moderating this session.

So I am absolutely delighted to introduce to you and have as our opening speaker, Rajat Nag. Rajat is the Managing Director General of the Asian Development Bank. He has been doing that for six years. And before that, his bio is in your folder, but suffice it to say that he has had a long and distinguished career at the ADB. And it's actually a personal privilege to welcome him here because in my previous job as Chief Economist at the World Bank, I had the great pleasure of working with him on a large and controversial project in Laos. And he was personally responsible for saving my skin on a number of occasions in the course of that project, so I owe a lot to him.

It's good timing, I think, to start to have Rajat and the other panelists here this afternoon because a lot is actually happening in the development field, which is new, which is untested, and where there is a lot of dialogue now about how it gets translated from the discussions in international forums into the actual practice in the field.

Last year we had the Busan High-Level Forum on Aid Effectiveness. That has given way to a process which is now ongoing about how to construct a new global partnership for effective development cooperation. The intention is that the outlines of that global partnership should be decided on by June.

In June we will also have the Rio+20 Conference in Rio where, amongst other things, there will be a discussion on so-called sustainable development goals.

Sustainable development goals are thought of as being something that might replace or merge with the Millennium Development Goals after 2015, and already there's considerable discussion about the post-2015 development agenda. That will also get picked up in July at the U.N.'s Development Cooperation Forum.

So there's this whole stream of thinking about well, is there actually something new that is happening with development cooperation? And at the same time, we've got existing agencies and very large agencies like the Asian Development Bank wrestling with how well are we doing, are we really achieving good results with development cooperation? And Rajat will say a few words about the ADB's Development Effectiveness Review for 2011.

While we were discussing -- before coming into this room, while we were discussing that report, one of the panelists said, "You know, this is a tremendous example of what we actually mean by public accountability." Right in the front of this Development Effectiveness Review there's a scorecard, there are traffic lights -- there's red, yellow, and green. And the ADB, I think, has been very honest about saying what's gone well and what's gone less well. And I think that that honesty generates a discussion, a dialogue, in management, with clients, with staff, about how to do better. And it's refreshing because it changes the focus from a focus on "We're doing really well, please give us more money," which has been sort of the traditional approach of aid agencies, to a focus on "We know that there are huge development challenges in front of us, and we really would like to have a discussion on how we can do better." And I would really like to commend the ADB for helping us move into that second discussion, which I think is likely to be much more productive and much more helpful for development.

So with that, I will turn the floor over to Rajat. He will speak for 10 to 15 minutes. I will then introduce the panelists. We will have a discussion in the panel and then open it up to Q&A from the floor. And I think we've allowed plenty of time for Q&A, so I hope that all of you will be very active participants in that part of the discussion. Rajat.

MR. NAG: Homi, thank you very much. Just for the record, if I saved his skin, he certainly saved my whole body in this project in Laos, but that's a partnership. I'm delighted to be here. Homi, thank you for your very kind introduction, both of me and the product.

I told Homi that there will be no PowerPoint presentation, and he said even if there was he couldn't put it on, so that takes care of one thing. And there'll be no speech because the last thing you want after lunch is a speech from an international development banker. What I will do, however, is try to set out three broad issues which I'm sure Homi will draw out much more along with the other panelists through the next hour and a half.

A bit of the history, the context: In 2007-2008, we prepared a strategy for the institution called Strategy 2020, looking ahead for the next 12 years at that time and basically saying what we will do, what we will not do, which was good and very well received by the board and others. And at that time we were going in for ADF, which is our concessional fund replenishment, and we walked into this meeting really expecting to be complimented, saying "You've got a great strategy," et cetera, et cetera. The compliments lasted 30 seconds and then the fireworks, saying "This is all very well, but what does it mean? How will you deliver? How do we know you will deliver? And you have the gall to come and ask for money, but tell us first what will you do and how will we know you have done it." And we realized this was not just some shareholders, some donors' representatives trying to be difficult. They were actually representing a very genuine need for us, institutions like us, to translate the so-called development effectiveness into something real, something measurable, and most importantly, something we declared ex-ante. We will do and then come back later and say well, we have or we haven't or how well we have done it.

I have to be honest with you. Our initial reaction was to resist, to dodge. Can we get away with this? Can we somehow convince the donors that we're telling you what you want and then somehow business as usual?

What happened when we started really thinking about it was transformational. What we realized is that our shareholders were asking things for us to do, pressured by their own stakeholders and taxpayers, something that we all -- institutions, individually -- wanted to do. We talk about development effectiveness, and we ourselves were frustrated in not being able to report that. And we decided that we will take this exercise on, led by the president himself, in a very comprehensive, honest approach, to basically be willing to let our institution be out there and say this is what we have done compared to what we said we'll do.

This was a very liberating exercise, more than anything else, because then you didn't have to think of somehow reporting something. You just wanted to find out how to report and then do it. And this process then led us into a situation where it almost became inevitable that there'll be more questions than answers. How do you attribute? How do you know you did what you did and it contributed to something meaningful? And paralysis by analysis almost followed. And the president then said "Okay, I want you to have a development scorecard, imperfect as it might be, and I want it by the end of that year before our aid replenishment." So that was the genesis of why we had to do it.

Point number two: We realized that there were some problems of attribution, which would be very, very difficult. So we made the following assumption. If Asia does well, we can say we did well. I mean, a bit of a leap of faith and maybe we win. But if Asia does well, we were doing well. If Asia doesn't do well, then it doesn't really matter what we did. We had not contributed to something meaningful.

Now, that's a harrowing example, but we felt that was a reasonable assumption to start with. So we came up with Level 1 indicators -- and I won't go through the detail, but it's there -- in which we basically take Asia-wide indicators, which are basically the Millennium Development Goals. And we said the first assessment, which is not just our assessment, it's the community -- U.N., ESCAP, ourselves, World Bank, UNICEF -- we do assessments of all of these. So the first level of indicators was how Asia is doing. And the second, third, and fourth were much more focused on us.

So the second level of indicators we decided was to focus on some core outputs. We all at the end of the day provide interventions -- loans, grants, TAs, technical assistance -- to do something. Some of them are easily measurable like roads or schools, some maybe not. But still, what are the outputs? And basically we said we will make some specific commitments. We will build 56,000 kilometers of road we said. How many did we build? We'll provide so many schools. We'll train so many teachers. How did we do it? Did we or did we not? We're not yet talking about quality. This is just quantity.

Then we basically said that's fine. You can say that you built so many schools and you trained so many teachers, but what was the qualitative assessment of it? What was the outcome? And we said we will devise our Level 3. Now all of these are very difficult. I'm not minimizing that at all. But as I said, we decided that we will -- imperfect as it might be -- we will actually put up some indicators. So we came up with indicators -- and you'll see in this book there are 14 aggregations, but there are actually 77 indicators -- and we said we will be willing to talk about quality of our completed operations -- quality at entry, finance transfer, consistency with Strategy 2020 -- as I mentioned, it is a strategic document.

We said we'll be working in five core areas: infrastructure, education, environment, financial sector, and regional cooperation integration. Eighty percent of our investment, at least 80 percent of our investments, would be in these five areas. How are we measuring up to it? Are we working in those five, or are we still, like in the previous years, basically doing a bit of everything?

We said we will talk about gender mainstreaming. Gender is very important so we will say okay, how are our projects contributing to gender mainstreaming? And there were various components of it: a significant component, a gender, some component, or none. But those are details, but the point is these were all indicators put up ex-ante in consultation with the clients. And they knew and we knew how we will be measured.

Knowledge management, partnerships -- we all talk about partnerships, but what does it really mean? So if Homi and I are working well on a project, is that a partnership if that project fails? But we had to make sure the incentives are right. If we say if a project fails, the partnership has failed, then maybe it's the wrong conclusion. But difficult as it was, we put up some of the indicators, which you will see here.

Then we said Level 4. Level 4 is basically are we managing ourselves efficiently and effectively? What about our human resources? What about our budget resources? What about our business processes and practices? Again, we got very specific. We said we will process a loan, take it from fact finding to what we call loan effectiveness, when the loan is signed and declared effective, within X number of months. No qualifications about -- yes, but if it's complicated then it's not X, but X plus something; if it's in country Y, then it's X plus Y. No, our average processing time will be X months, and then at the end of the year you measure what it was, bad or not.

So these four levels -- Level 1, Asia; Level 2, output; Level 3, essentially the quality of our operations, are we effectively operating; and Level 4, which is very inward looking, basically are we managing ourselves effectively? These four together became our development effectiveness scorecard. Now, difficult as having these indicators was and getting a consensus within the institution as you can imagine, but we drove that process from the president down and bottom up because indicators won't work if people who are going to do it don't believe in it. And it won't work if people at the ground level don't really think the president believes in it, so we had to make sure the top down, bottom up intersection happened.

That was the easier part; then were the targets. People knew that at the end of the year, they'd be evaluated. So how many kilometers of road do you build? What will be the quality of operations, 80 percent success, 75? What will be green?

What will be red? What will be amber? And we felt or we all thought that our Operations people would say 50 percent, knowing that if it went over 50 percent, it will be a green. The opposite happened. The Operations people said, “I want a target of 80 percent success because I want the bar to be high enough to be credible,” knowing full well that if they don’t meet it, they’ll get a red or an amber; but also knowing that their credibility would be stretched if they set themselves a bar or 50 percent as a benchmark. And I remember one meeting in which I, chairing on behalf of the president, basically said, “Guys, you realize what you’re doing? You’re putting yourself on a bar that you will have to jump over.” And they said, “Yes.” And I said, “You’re signing this in blood.” And they said, “Yes.” And that became our target. That became a contract between the president and the board. He then said, “In 2008, this is what I will achieve and these indicators, and at the end of the year judge me for what I’ve done.” And at the end of the year, an independent unit -- I shouldn’t say independent because that gives the impression it’s independent of management -- but a separate unit set up in our Strategy & Policy Department led by Kazu -- Kazu is here somewhere. Oh, I’m sorry. Kazu has gone for a meeting -- but in our Strategy & Policy Department, a separate unit was set up, reporting directly to Kazu through him to the president, and they would do the assessment. It was not done by the Operations people, but it was not done also by our Independent Evaluation Department because we wanted to have the management very involved. And it was a very honest -- as honest as it could be -- robust assessment. And as it turned out, we had quite a few reds, and I think people thought, thought at the operational level and maybe in our shareholders, that that is when we would get to work in trying to massage those reds into amber, and ambers into green, or whatever. And we realized that credibility was much more important than anything else. We gave whatever those numbers were -- we're not looking for reds; we're looking for greens obviously, but if red is what happened, it happened -- and we reported this to the board, and it was very well received.

But much more than reporting, what we found was it became a very powerful management tool because not only the president and his management team, but the heads of departments, operation people, could see that they're heading towards a green, or heading towards an amber, or heading towards a red. For example, we found that we had said we'll commit at least -- education is one of the core areas, as I said -- and we found we were only lending 3 to 4 percent in education, which was red. This information came to us early enough for us to do something, and last year that proportion has gone to 8 percent, doubled.

Gender mainstreaming: We found that we talked the talk and didn't actually do much about it, and we were getting red on gender. And obviously and rightly our shareholders weren't happy and the president wasn't happy. So we started taking corrective steps about how to increase the gender component. And I'm happy to report this year for the first time we've actually got a green on gender. But I think the important thing was we built the credibility, painful as it was, because then in 2010 a shareholder had this brilliant idea that, "Why do you just present it to the board? Why don't you present it at the annual meeting to the governors? Stand up there and show them this." And our first reaction was you've got to be kidding. I mean, with all of this -- they said, "No, we're serious, do it." And the governors wanted it. The president wanted it. And it was very painful. It's one thing to go to -- the board is still internal. It's part of the family.

Shareholders, stakeholders, 4,000 people, we stood up there and we said this is our scorecard. This is what we said we'll do. This is what we've done. And it played a very important role, as I said, a transformational role in us saying painful, but it was useful. So what will we do next time? And this is not something just for the president and his management team. It sort of went down because we cascaded the results framework down to the division because obviously you couldn't aggregate at the institutional level if you didn't have it at the divisional level. So each division has a scorecard. Each department has a scorecard.

Till last year, we started to see that our outputs were not so good, but our outcomes were. So we said, okay, at least we're okay in the sense of outcomes are still positive, then you're okay. This year, 2011 analysis, disaster. We found our outcomes turned out red. So basically, it's a huge problem. We have projects which are delivering outputs, but not delivering their outcomes. Maybe we're building the schools well, but maybe we're building the schools in the wrong place. Maybe we're building the schools, but not worrying about the teachers' training. And this, when it came out red, was again absolutely transformational because nobody questioned the red. I was hoping that nobody would question the red because it was a red period. But the fact is, the institution started to basically say, what do we do? We can't keep having reds in outcomes.

Quality of completed operations red: Obviously, I mean, your outcomes were red because the quality of completed operations was red. But fortunately, quality at entry was green, which means we're improving the projects going in. Now, there's a lot of analysis which I don't have to go through. There's a time lag. We're measuring projects which were designed earlier, and it's always easy to say I didn't design it. But the fact is we could see why some of our projects were getting red in their outcomes, or red in the completed operations. Fragility of the state is one factor. Our Pakistan portfolio we found was not performing well. We took a hit. We cancelled projects and consultation with the government. We restructured our portfolio. We took the red, but at least now our Pakistan portfolio, just as an example, has started to show this.

Now, these issues might have surfaced even before, but A. they'd have surfaced piecemeal and B. they would have surfaced too late. And for us, that became very important. So my second point is that the scorecard, which we stand up in front of our shareholders, show them like this, has a tremendous management influence and a liberating influence as well.

And my third and last point is that we know that our issues with it and weaknesses, attribution is one of them, partnerships, scaling up, we don't somehow capture the benefits of scaling up. So we are reviewing our results framework this year. We have kept it unchanged for four years because we don't want to change it too frequently lest we be accused of a goalpost change, and this year we're reviewing it. And as a matter of fact, one reason I'm here, thanks to Homi, is to get feedback from you and the panelists on how we could improve it because next year we'll have to go with a revised results framework. And I think it will serve the purpose well in terms of helping the institution move forward. A long way to go, but at least we have got something that we can sort of report to you. Thank you very much.

MR. KHARAS: Thank you very much for a fascinating description and account, and I'd like save any questions to ask you, but I'd also like to bring the other panelists into this discussion. So before we go into the discussion, let me quickly introduce the other panelists.

We're very pleased to have Keiichiro Nakazawa on my right. He is the Chief Representative of the U.S. Office of the Japan International Cooperation Agency, JICA. He has been for two years Director of JICA's Operation Strategy Department before coming here to Washington. And before that he was in the old, what was called the OECF, the concessional wing of Japanese Cooperation in India.

Next to him on his right is Tony Pipa. Tony is the Deputy Assistant Administrator in USAID's Bureau of Policy, Planning and Learning. Before that he was -- this is the new group that has been created under Raj Shah to really give new strategic direction to USAID and I think has already shown some tremendous changes in direction. Before that -- and this is where we first met each other -- Tony was directing the NGO Leaders Forum and the Domain of Practice at the Hauser Center for Nonprofit Organizations at Harvard.

And last, but by no means least, on the extreme right is Paul O'Brien. Paul is the Vice President of Policy and Campaigns at Oxfam America where he oversees all of the organization's policy, campaigning, and private sector engagement work. Also relevant to this discussion, Paul spent many years in Afghanistan in various capacities, including as Advisor to the President and two Ministers of Finance -- only two, Paul? I would have thought that --

So I think we've got a very well balanced panel. Unfortunately for those of you who saw the earlier announcement, Clare Lockhart from the Institute of State Effectiveness, who was also going to join us, was unable to come at the last minute. So I'm sorry if there are some of you who are disappointed in that.

Let's move into the discussion, and I'd like to actually start by posing a question to Rajat about, you know, this has been a long process where you started to think about a results framework. But we were all told that last year at Busan, things changed a lot. So tell us a little bit about how -- what is new now about the frame of development effectiveness? How is that affecting your scorecard? How are shareholders thinking differently and encouraging you to behave differently? And what does that mean to how you do things? I did hear you say scaling up was one of the weaknesses, and I know that that was in the Busan Outcome Document. Rajat?

MR. NAG: Two quick points, Homi. One, I think the discussion has moved from aid effectiveness to development effectiveness, and I think a recognition that aid is a very small part in many of the countries overall development budgets. So we really should talk about the development effectiveness. And a point which I didn't quite get to was one of the effects we found of our system was that countries now have a much greater sense of ownership because this scorecard is part of their scorecard.

So I think in Busan the emphasis on development effectiveness sits very well with what we have, and I think the changes that we'll have to work on are three. One is, of course, the scaling up I mentioned. There's a much greater emphasis now on partnership and the South-South Corporation, and I think we will have to probably find better metrics on partnership. And the third is country ownership, and again this one is still, quite frankly, too ADB centric. We probably have to find ways of deflecting the countries' ownership, use of countries' systems. Sometimes it causes difficulties, but we have to move in that direction. So I think we'll have to capture those three aspects from Busan more aggressively than we have so far.

MR. KHARAS: Thank you. Keiichiro, for you, with this new discussion of development effectiveness, you are after all an aid agency. Has it really changed? Has this change in vocabulary changed things on the ground?

MR. NAKAZAWA: Yes, I think so. Let me begin by thanking Homi and then Brookings for inviting me for this very interesting discussion. And I'd also like to thank Mr. Nag, Rajat Nag, not only for his insightful presentation today, but for the long-term relationship between JICA or JBIC in Japan. You know, when he was with the Mekong Region and that's a great region initiative. I was a Director in JBIC for Mekong Region and we really had great work, and I believe it has developed into results.

Coming back to Homi's question and differing to what Rajat said, I direct your focus upon the South-South Corporation because what the Outcome Document of Busan highlights upon the South-South Corporation as a very important tool. In fact, as you look at the Outcome Document of the Busan, there is a distinctive feature which distinguishes North-South Corporation from the South-South Corporation. Even though it puts high importance upon South-South Corporation, it clearly differentiates it from the North-South Corporation. For example, the Outcome Document says "The nature, modalities, and the responsibilities that apply to South-South Corporation differ from those that apply to North-South Corporation, and the principle commitments and actions agreed in the Outcome Document in Busan shall be a difference for South-South's partners on a voluntary basis." But still, because South's many Asian countries' resources are so plentiful even as compared with traditional donors, they put a higher point on South-South Corporation.

And, in fact, if we look at the kind of merits of the South-South

Corporation, I can point out several things. The first is South-South Corporation can increase the drop in partners ownership because it's more -- rather than donor reconciliations, but more even partnership.

And secondly, the South-South Corporation may improve access to appropriate technology rather than to advanced technology over the traditional developed countries.

The third feature of South-South Corporation may be increasing opportunities for the regional corporation. If we think about the ASEAN region, for example, South-South Corporation can definitely -- is good for the regional calibration and regional integration.

And the fourth probably is obviously increasing the drop in resources. That would be a little bit problematic if traditional donors say so, but, in fact, increases countries' resources.

And also it may take on the one hand a similar historical, cultural, or sometime wrong way for climate condition. That would also be a significant part of the South-South Corporation.

And Homi asked me how it affects our operation. I'm working in a Japanese government agency for international development, JICA. Well, JICA, as you may know or may not know, has been active in the South-South Corporation or triangular-type of corporation. Looking back at our history, Japan received the World Bank loan for Japan's development until late 1960s. And Japan, even though we received the loans and assistance from other countries in international organizations, started our typical assistance in 1954, which means Japan in the 1950s, '60s, and '70s really South-South Corporation. And given the experience and kind of fearing that it works, we intensely rely upon South-South Corporation after we became donors.

And, in fact, at the time of the Busan meeting, Secretary Clinton kindly mentioned Japanese triangular-type of corporation, which is traditional developed countries donor help South-South Corporations. She referred to our triangular corporation among Brazil, Mozambique, and Japan. In this case, JICA assisted to train Brazilian agricultural engineers to improve soil conditions and also develop a variety of soy beans. And it clearly worked even though it took more than a decade, maybe more than two decades. And now Brazilian engineers together with our experts are helping Mozambique which has similar soil conditions to develop their agriculture.

So I think development effectiveness -- in order to enhance the development effectiveness -- a way to pursue more.

MR. NAG: Thank you. So, Tony, I'm going to put the same question to you, but also to preface it by saying that we saw an announcement from the administrator recently saying that at least 30 percent of your assistance is going to be done through local contractors. And the immediate response from the local Washington community was to say well, "If you want the aid to be effective, it's got to be done through us, through the contractors who know how to do things, who know how to make sure that everything is in compliance with Congressional rules and earmarks," et cetera. So there seemed to be a very clear and obvious clash immediately between what was previously interpreted as aid effectiveness and what was being seen as development effectiveness. So maybe you want to touch on that.

MR. PIPA: I'm going to let Paul help me out on that one as well. Well, thanks, Homi. And, in deed, one of the reforms under the USAID FORWARD reforms that we've undertaken is an intensified focus on the importance of country ownership and the push toward working through country-led institutions. And it is a goal of ours -- it's a global goal -- to increase our funding through those institutions up to 30 percent. We see that actually completely in line with the move toward development effectiveness and a manifestation and a reflection of what we've even been talking about since Paris and that is country-led and country ownership. I mean, partner countries want a stronger voice in how aid is used, and they want to be able to have a role in its use so that we're not creating aid dependency -- and, in fact, it's the U.S. taxpayers that benefit over the long term -- as they move along the continuum toward development.

And those USAID FORWARD reforms are -- that's one piece of them -- and they were underway before Busan. But I think the Busan focus on results and transparency and accountability fits well with those USAID FORWARD reforms and continues to provide continued momentum for us to drive forward, results being a part of it.

You mentioned that the Policy Bureau, of which I'm a part, is new, is revitalized, in this administration. And one of our first products was a strategic framework, a policy strategic framework, for five years to lay out what our development objectives were, as well as the principles that underlie those development objectives. And we married that also with revitalizing strategic planning at the country level as well with the country development cooperation strategy, again aligning with country-led plans as well. And putting those two together continues to keep our focus on the results.

In terms of accountability, our second product actually was a new evaluation policy, which we feel set pretty high standards and is also very transparent in that we're seeking to put out those evaluations and publish them within three years of them being completed so that we can show what has happened and what the impact has come off of the strategies and off of the projects that we've put out.

And then, of course, with transparency we've been working within the U.S. government, the commitment that's made to create the foreign assistance dashboard and to put our aid data out there in a way that's accessible and visually intuitive to use. We're just in the beginning stages of getting our data out onto the dashboard, but it also provided us the ability to make a commitment to the International Aid Transparency Initiative at Busan. And that is something that Busan did help us provide the opportunity to make that commitment.

But I would go further than that to say that the inclusiveness of Busan is really a barometer of where the agency is going as well. In understanding that we're reassessing government's role in development because we're recognizing that aid itself is -- official aid and the aid that we're putting out is, frankly, in the changing aid-scape, we're becoming a minority shareholder. As our Deputy Administrator coined it a couple of weeks ago, "The inclusiveness in the Busan Outcome Document really is reflective of the democratization of development." And I think that's really led us to reflect on how we need to work differently within the development community, how we use our convening authority, how we act as a catalyst to bring different types of partners together. Maybe we can talk about those partnerships a little later on.

For example, we're taking a stronger role -- USAID is -- within the U.S. government in working with the Regional Development banks, ADB included. Our

Deputy Administrator just attended the annual meeting, and we recognized the opportunity to work together to promote inclusive growth in the region. And I would say, actually, that lost a little bit among the focus in Busan on the emerging economies and their inclusion as well as the private sector. But there's also the inclusion and the thoughtfulness of what regional organizations can play, and I think we're just in the beginning of thinking about how we leverage regional organizations to take the development agenda further.

So I'll leave it at that.

MR. KHARAS: Great, thanks. Just a very quick follow up. You saw the scorecard and the power of the red, yellow, green. Obviously you've made tremendous strides with transparency, et cetera, but much more from the bottom up as it were, from the evaluation of individual projects. Any thoughts about a more organization-wide level for a similar kind of project?

MR. PIPA: So we've put the policy framework together, and our next step is to think about how we actually measure our progress against that policy framework. It's thinking that's going on inside the bureau right now. As well, those evaluations that I spoke about will be out and transparently posted whether they're successful or show success or they show challenges or potentially even failure for the projects that we've put out.

MR. KHARAS: Great. So we can look forward to having some indicators and targets in the near future that will be publicly available.

MR. PIPA: We're putting thoughtfulness into how we measure that, and we have on our USAID FORWARD reforms as well. Similar to the management, the different levels that he outlined, we also have a set of indicators that we use on the management side for how well we're hitting those metrics for USAID FORWARD as well.

MR. KHARAS: Terrific. Paul, let me come to you, and I think Tony gave you, teed you up by talking about the democratization of developments.

MR. O'BRIEN: Yes, he did.

MR. KHARAS: So let me not spoil that connection.

MR. O'BRIEN: Right, and that's a nice tee. First, yeah, I think it's really impressive. Not just the fact that they've made it nice and simple for us to see where they're doing well and where they're doing less well, but the fact that they made it public. I've always been skeptical about institutions whose missions are fundamentally not the same as the broader development challenge, being the leaders of the development effort. And what I mean by that is that banks traditionally have not always been the champions of making their innermost debates and discussions transparent and democratizing power. And I think the collective epiphany that many of us have faced as we've struggled with aid effectiveness is that we're not that relevant after all. It's about them. It's not about us. And the whole vocabulary of the aid game -- including that word, including the word ownership, which we've been champions of -- smacks of not getting the fact that at the end of the day the really interesting story in development is it's about the politics stupid -- big politics, not the pettier forms of politics that we sometimes see practiced in this town, but some of the greater moments of politics that we have seen practiced in this town, the relationships between the institutions on the ground -- the states, the citizens, and the private sector. That's where development happens. It's the dynamics between them. And if what's really interesting in the dynamics between them is the power that gets exchanged between those three sets of actors and that's where development either accelerates or gets diminished. We've had to very quickly over the last decade get our heads around how do you measure power and how do you influence power? And what we're all, I think, in the economics game coming to realize better is that one of the best proxies of power is where's the real money? Where's the real money going? It's an old story, but we as development actors are cottoning onto that. So when we start talking about development effectiveness, what we're starting to do is say okay, let's put aid in its space and now let's ask, where's the real money?

And I'm going to just make a couple of comments about that and then, because I got the invite from Mr. Nag which I thought was very generous, I'm going to make a couple of recommendations to the ADB on how it could deal with this.

But just to say, so where is the real money? I think there's three buckets we don't talk enough about or we don't talk enough about in the right ways. One: In Asia -- maybe more so in Africa, but in Asia -- are the resource extraction flows. That's where Afghanistan is having its most fractious discussions now. How do you take the money that's out of the ground and use it to allow everybody else to get out of the aid game? And how are we going to make that work? And that's very quickly become a transparency discussion, but it's kind of gotten stuck in my view at the transparency part of the journey, which is always a means to an end. The real question is, is how do you translate transparency around money flows into genuine power transfer or accountability? And we're not there yet because, guess what, folks on the other side of these deals -- often governments or the corporations -- are learning the rules of transparency, but they're playing the game, too, because everybody cares about power.

I'm particularly proud last week that Oxfam, although we actually find that much of what the administration has done to be very positive, sued the Obama Administration for its failure to implement Congress' -- Congress passed a rule saying that the SEC has to publish the terms of all extractive deals, anybody who deals on the New York Stock Exchange, within 250 days. It's 500 days and counting. The administration still hasn't done it, so we're suing them. Let's see what happens. We think we'll win that one. So that's one flow, resource extraction.

A second, which I think we're going to have to get our heads around fairly quickly, is innovative financing, meaning the clever, new sources of funds that folks haven't thought of that viscerally appeal politically back home. One that we're particularly fond of is the financial transactions tax, which seeks to place a tax on speculators. The question is, is if you put that tax on banks, how would you get that money into the development game rather than having it flow back to increasingly nervous Europeans and American banks? How would you actually get innovative financing, which frankly could dwarf aid, and have it be a significant contribution to development?

And thirdly, and this is one where maybe we part ways a little bit with USAID, is the private sector. Here's the deal we think about the private sector in the role of development actors. It's been oversold on one hand and undersold on the other. We think there's plenty of work that we should all be doing to create that enabling environment for the private sector and that's where this term, development effectiveness, really gets legs. We should be doing more to create the environment for trade. We should be investing in the never-that-popular, infrastructural though -- ADB, I think, should take a bow on a lot of infrastructural investments compared to many donors -- and obviously we need to tackle corruption if we're going to unleash the power of the private sector. But what we should not be doing is overselling the idea that if we get a few brand-named corporations to commit to global poverty reduction and development, we're going to unleash massive new pockets of investment on their side because somehow they'll work out, that it isn't just corporate social responsibility. Their bottom line resides in becoming second-rate development actors. That's just not going to happen at the speed that we're selling it right now. And I think the Obama Administration, while being creative on some fronts, we felt needed to be held accountable last week when they announced at the G-8 that we've got $3 billion in new money from the private sector and this is the tip of an iceberg. Actually $2 billion of it came from a Norwegian company with a shady background. I'm not sure we're going to see the massive outflow of generosity from the private sector even if we want to harness the power of equitable markets.

Okay, so that's my rant about effective development. It's about a lot more in aid. It's certainly about a lot more than us. And if it really is about getting the relationships right between citizens, states, and the private sector in these countries, then what might we say that's useful to the ADB in its laudable effort to become more publicly accountable to all of us?

Well, first thing: When I picked this up, honestly it still reads to me a little bit like a corporate report where the action is ADB. This is a report about ADB and its performance. If they're really going to lead the development debate, it should be a report about the countries and their performance. And we could look at the ADB's influence or not in that, but we still live in a Westphalian world where the key driver of the development discussion is the nation state, hopefully held accountable by its own citizens, and they should figure a lot more largely in this.

Secondly, I love the fact that Mr. Nag was very honest. It is a huge problem that outcomes didn't do well no matter how all the other ones went. That's like walking into a corporate meeting and saying, "We sucked on profits, but you should see our new kitchens." This is the heart of it, and so I'm really glad that he gave it not just the moral urgency, but the managerial urgency to talk about that.

I would say that here's a challenge for ADB on the outcome question. Sometimes when you're not getting the result you really need, you start measuring other things in order to prove that you're making progress. And there can be a fundamental tension between measuring outputs and measuring outcomes. I want to tell you one funny story. I was advising the second Minister of Finance in Afghanistan on the difference between policy conditionality and outcome conditionality. And what I basically said to him was "Well, outcome conditionality is where a bank gives you a lot of money, but tells you you've got to get this outcome; and if you achieve the outcome, you'll get more money." Policy conditionality is where they tell you precisely how you ought to achieve the outcome, and I'm personally not in favor of it because what they're really trying to do is get you to act like a leader, and telling you exactly how to get there robs you of your leadership ability. So we should be pushing them on the outcome conditionality part.

Now here's an interesting fact, Mr. Minister, the World Bank has a whole set of policy conditionalities about how they think you ought to get your outcome. And the ADB has a whole set of policy conditionalities around how they think you ought to get your outcome. So why don't you ask the two of them to have a chat with each other and decide which pathway towards the outcome that you're supposedly leading is the best one?

Six months later they came back and said they could not do it. The philosophical questions at hand, the corporate cultures, the transaction costs of sitting down and coming up with one set of policy indicators, was too challenging for probably the two most thoughtful development institutions that were working at that time in Afghanistan. And I think that is a sign that there is a fundamental tension between believing that you can both help a country get the outcomes it needs, get the leadership it needs, and dictate how to get there.

So lastly I want to say, because I am here as a civil society representative and I've talked a lot about governments, countries are not governments and governments are not countries. The last plea I would make to the ADB on this front is you are a sophisticated development actor. You're deeply knowledgeable about many of the fragile environments in Asia. Certainly I know about Pakistan and Afghanistan. And yet you invest in only really one part or maybe two parts of the development triangle I talked about. You invest in the state, and you invest at some level in the enabling environment of the private sector often through the state. You invest very little -- correct me if I'm wrong -- in the actors that are supposed to be holding the state accountable, which leaves you in the unenviable position of having to do it yourselves. You're not investing enough in civil society strengthening in sophisticated ways. And we know that that game is changing, and, frankly, we need leadership in terms of its direction.

So the last thing I would say as a recommendation is to consider whether the portfolio of the bank would be better balanced were it to invest in all of the institutional actors that we need to drive the development debate.

And my very last comment, Homi, but happy to talk about it more, I'm not sure the answers are that much different in a fragile state as they are in a less fragile state when it comes to what it actually takes to drive effective developments. And I'd happily talk for a few minutes later on if it's helpful about how that played out in Afghanistan.

MR. KHARAS: Well, talk for 30 seconds then, Paul, about whether you think that some of these changes that we've heard will actually now be effective in fragile states, because so far the track record of delivering development outcomes in fragile states by anyone has actually been extremely poor. The ADB report talked about Pakistan; my guess is that they would have had similar results on Afghanistan as well, as well as a number of the other fragile states in Asia, and that's pretty much across the board. Do we need -- there is a separate dialogue globally, something called the G-7 plus on fragile states, that seems to say we actually need something different.

MR. O'BRIEN: Yeah, 30 seconds?

MR. KHARAS: 30 seconds.

MR. O'BRIEN: We need different tools, different skill sets, different timelines, but I don't think we need different fundamentals on approach. The government of Afghanistan needs more legitimacy with its own people than your average MIC, middle-income country. It's the secret to the whole state building agenda there. We, the United States, has invested 50 percent of its budget, of its money, in Afghanistan through the Afghan government. And you know how many journalists are out there, waiting to tell the story of waste, fraud, and abuse. How many have you read? We know it's a corrupt government, and yet there are ways to invest thoughtfully. It's not like you take the whole government as the government in Zimbabwe -- well, actually maybe it's Zimbabwe, I'm not sure -- but there's no government which is homogenously disinterested in legitimacy. You find the progressive actors -- the moderates, the capable technocrats -- you incentivize them, you reward them, and you can make progress anywhere. And having this new solution for fragile states lead to a whole set of paralyzed structures would be a massive step backwards. But I totally take your point, that having started with the same principles, achieving them when your baseline is different is naïve to think we can just apply the same approach.

MR. KHARAS: Keiichiro, while we're on this topic, you're about to host a Friends of Afghanistan donor meeting I think in July. I'm sure that this topic is going to come up about whether a new or different approach is required or whether it's just being smarter with the existing approach. How's that going to play out?

MR. NAKAZAWA: Homi, a recent poll the timeframe would be different in achieving the results in fragile states as compared with the stable states, but the fundamentals must be the same. But the balance which we have to put out might be very different. I mean, even though that in a fragile state they're kind of trapped to meet the MDGs. And one bank report on conflicts and the problem and said in order to strengthen institutions and governance, not only government, but also government structure, providing citizen security, justice, and job is crucial. And those need to be provided not in a sequence manner, but at the same time and that's not the easiest thing.

So we have to be practical in making a timeframe and a metrics for assessing the short-term results and the long-term results. And I think the balance between the needs of some kind of tangible benefits are quick wins and also the long-term engagement by all stakeholders, not only the fragile states, governments, or people themselves, but also the long-term engagement of donors or other actors of varying importance.

So in that sense during NATO's Summit meeting in Chicago, I understand -- and even before that, the United States and Afghanistan made an agreement, saying that even after 2014's withdrawal, at least ten years the United States government will request Congress for the budget to assist Afghanistan's development. And in NATO's meeting, I understand that Japanese Foreign Minister Gemba said that Japan is now providing assistance to train Afghanistan's police in order to improve its security situation. And he at NATO's meeting I understand that he also made it clear that even after 2014, Japan will continue to be engaged in the development of Afghanistan. This type of long-term engagement is quite necessary.

And looking at the governance, half of the governance is not possible, is not possible even in the states or even in Japan. In fragile states we have to be maybe in some cases merely be satisfied with good enough governance, otherwise we can't move ahead.

MR. KHARAS: Tony?

MR. PIPA: I think Paul's point was a good one that things are not monolithic when you talk about country-led systems, when you talk about governments, when you talk about civil society. And harkening back to, Homi, your question about the 30 percent of USAID funding going through locally-led systems, we were having to develop tools so that we're doing this thoughtfully and we're doing it well. We're not just willy-nilly putting the money out there, but we're putting together financial analyses so that when we're doing it, we've got an accountability regime, if you will, to be able to do it well.

And to take the conversation on fragile states a little further, we're talking about Busan, but we haven't mentioned the New Deal. And the New Deal itself was for our minds a pretty exciting step forward. The peace-building and the state-building goals that it reflected weren't new, but the agreement on them was a huge milestone. I mean, after all, it's not donors that build states, but it's the compact between the society and the state that will achieve those development goals. And having that buy-in and having that commitment and then being able to build on that, I mean, I think Paul's right, we need to be thoughtful about the tools and the approaches to do it. But I do think Busan has changed the conversation in that respect and provides a window of opportunity. I mean, we are in Afghanistan right now. Our program's looking at them as they align with the New Deal. And while there are lots of questions to be answered and there are a lot of things that are highly contested within Afghan society, it represents at least a broad consensus on what the principles need to be and what the business model could be going forward.

MR. KHARAS: Thanks. Rajat, so three things came up in this discussion on fragile states that seem to be important for you to think about. One, timeframe of indicators and in particular do you want to do this as an annual basis.

Second, you have a common set of indicators, but in the New Deal they called for a different set of indicators, including some indicators on things like jobs and justice and security, things that you haven't traditionally measured.

And three, there are some pilot countries, including in Asia. Are you ready to formally become a partner for some of those pilot fragile states under the New Deal?

MR. NAG: Thanks, Homi. We're certainly looking at it. I think the dilemma that we face is -- I'm talking just about our development effectiveness report -- that it must measure something in totality because otherwise you could always have so many exceptions that again you'll fragment it too much to get a total picture, but we certainly will look at it.

The timeframe, I think, this has to be an annual exercise because otherwise the discipline of the annual exercise goes. And that's very powerful we find; that people know that every year you've got to be able to report and be judged on the performance issues.

I really like the point that Paul has mentioned -- and thanks for the suggestions. There are some constraints, which we might not be able to overcome, like lending or giving financial support directly to civil society. We've got to find ways and there are some inherent legal issues, but that's a separate one.

But I liked your point very much about let's do things to enhance the legitimacy. I think that's a very valid one. I'll just take 2 minutes to give you an incident when we tried we got so burned that we won't try it again. In Afghanistan in the height of all the troubles, I think there was a brilliant idea by one of the ministers saying, "Wouldn't it be nice for people to see something nice? In a city which has got everything dark and drab, wouldn't it be nice to have a fountain in the traffic island in the city?" It would cost $10,000, $20,000, whatever number. And we thought that was a brilliant idea. So we said, sure. So through a solar panel, the fountain lit up at night. The only bright thing and that was enhancing the legitimacy of the government exactly for that reason. The media ran a story. “Look at it. These fellows have nothing better to do than sort of have illuminated fountains and then most of the time it is not illuminated.” We got raked over coal and audit. People in this city with all good intentions mostly just made us look so foolish that the person who did it, who I thought was brilliant for legitimacy, he said “I'll never do fountains again. I'll never look at fountains again.” So that was the end to an effort which I thought was a brilliant idea. So I think we all have to be very careful not to be too demanding under circumstances which are very difficult. And I think I really liked Nakazawa's point about good governance absolutely, but sometimes good enough governance as a starting point may not be met.

MR. KHARAS: All right. Time is getting short, so let me throw it open to the floor. Just wait for the mic to come around.

SPEAKER: So my question is about India. And first of all, I want to really appreciate this because last week we heard Bono saying well, most of the poverty is in Africa, and it's not. Most of the poverty is in India. And as Paul was saying, to really understand this kind of aggravated regional picture, you really would -- I would have to understand how you see India in this. Does ADB have a powerful role in the process of development formulation in India?

And particularly within India, the weakness of local government is a huge issue. The connection between national economic growth and rural poverty is the responsiveness of local-level government, which is extremely weak throughout South Asia, but particularly in India. Does ADB have a role in capacity building of local governance and decentralization as it does in things like infrastructure?

MR. KHARAS: Let's take a few. The lady up here.

SPEAKER: Thank you. I'm Kelley Currie from the Project 2049 Institute. I wanted to ask you -- sorry, I wanted to ask you another specific question. My name's Kelley Currie from the Project 2049 Institute. And to go back to the fragile states dialogue, apply some of the comments to Burma and how ADB will be moving into Burma. JICA has made some large commitments recently on Burma, and AID is also now opening an office in Burma. So I'd like to hear from the panel as to how they would apply their analyses and frameworks to that particular case.

MR. KALIRINA: Thank you. Rob Colorina, AIAC Investments. This is a little bit on the other side for ADB in terms of your donors and sort of the mix there. Some of the economies have changed. You see at the IMF that of the two deputy managing directors, one is from Japan and the other from China. I'd be curious as to your thoughts as to how you deal with that changing mix from a legacy basis and from a going-forward basis.

MR. KHARAS: Why don't we deal with this round?

MR. NAG: Let me take them in the order. In India, yes, we do work very closely with the states and actually with the local government. As a matter of fact, that's what the central government wants us to do, work with the weaker states, the poorer states, including capacity building. But having said that, in India we as an institution and also the World Bank, we are such a small part of India's overall development budget or expenditures, that it would be naïve of me to say yes, we have a lot of influence. But in partnership, I think, it does make a difference. But in terms of the big influence where the country is headed, I would say very limited.

Now at the sub-national level, particularly the weaker and the poorer states, I think we have more influence because of the capacity building or because of assistance we bring to them, which is more significant as part of their budget. Now it does not necessarily result in macro changes, but what we do find at the local level -- building capacity at the municipality level, providing some guarantees to investments which otherwise wouldn't happen, state public resource management, which then basically gets the state's budget more in line with some modern principles -- those are making some difference, but those are very program and project specific rather than macro.

On Myanmar we are, I think, getting ready to go in but two things. One is our shareholders still have not said yes, you do, and I think that's a political decision which will be taken I think sooner rather than later. Second, Myanmar has a large mound of arrears with us to the tune of about $490 million, which our charter requires has to be cleared before we start operations there. Now again, I don't think that's insurmountable. If there is political will at the global level, then I'm sure some generous countries might sort of find enough ways to do rich financing, et cetera, et cetera. So our feeling is that we'll start operations in Myanmar sooner rather than later, but once we do -- and this is where again the point that Paul was making comes in -- I would hope all of us would remember that this country has been isolated not for 20 or 30 years, they've been isolated more for about 50 years, not just since 1988. It's really more since '60 or '61. And this loss that has to be done, if we try to apply gold standards on everything, I don't think things will get done. So we would have to aspire to the gold standards, but we've got to be realistic. We've got to move in small steps to get there. And I think this will mean fairly robust dialogue with our principle shareholders. And without compromising some fundamental principles, we'll have to be realistic about how we go about it.

On your question about governance, ADB structure is already regionally sort of inclined. The president, for example, by charter comes from the region. So we don't have the same sort of issues that an international institution like the World Bank or IMF has. But I think it's going to be inevitable that as you see the emerging economies gain more power, those balances will shift. But it is not an issue right now; at least it hasn't become one.

MR. NAKAZAWA: I just want to mention about Myanmar. Last week we co-hosted with the U.N. team the first donor meeting in Mandalay, of course, including the Asian Development Bank. And there we talked very practical things on how we can assist Myanmar people and the government to achieve a kind of results. And even though it may now not be called as Rajat states, but it is still fragile and capacity is very much lacking. So we have to work together to enhance the capacity of not only the capacity of the government, but also for the civil society and all stakeholders in Myanmar. And in order to do that, donors or partners have to work together, thinking about the transaction and cost with itself becomes very much of a burden to the small-capacity that Myanmar government and people have. So the coordination among partners is very much necessary and is one of the reasons.

MR. KHARAS: Can you just say one word about how you're going to try to make sure that the story on Afghanistan that Paul told about different people with different approaches is actually going to be dealt with this time around? I mean, there are so many donors now that are going into Myanmar. Everybody's got their own ideas about what should be done, what are the priorities. What practically will be the process for the donors to come together and decide on a common approach?

MR. NAKAZAWA: I think as it said in the Busan Outcome Document, country-led development plan is the kind of key. And, of course, in order to make comprehensive country development plans, donor assistance might be necessary. But in the end, we have to all -- the partners need to align in one single document which will be owned by Myanmar itself.

MR. KHARAS: Thanks.

MR. PIPA: Just to build on that, as I mentioned USAID will be restarting a mission there. And at the moment we're still in the beginning phases, but we've outlined four broad priorities for that mission. One of them about supporting reforms to strengthen civil society; build the capacity for good governance so institutional processes that will lead to good governance; and then supporting reconciliation. But one of those priorities is about coordinating with the international donor community and making that an explicit priority for our people on the ground when they get there will play a large role in how we approach the work. And I think we have to be careful about not overwhelming the institutional capacity that's currently there. That's incumbent upon us as donors to be thoughtful about that.

Just a word on India because India is an interesting place, and not about the local governments and governances as you were talking about. It's an interesting place in which we're doing private sector partnerships in a way that -- we recognize that India is a place of much innovation, use of technology, a lot of social entrepreneurialism.

The Indian government has created its National Innovation Council and has created a $1 billion National Innovation Fund for early-stage financing for entrepreneurs. We're building on that platform to work with Indian society and the private sector to take some of those solutions to development challenges and help bring them to scale, both locally but then also in other places that we're working globally. And so as a country that's in the midst of its transition, we're trying to be thoughtful about how we leverage that and work differently, create the enabling environment for private sector there so that it can bring solutions to scale within India. But then also export them and make them useful and use those innovations in other places where we're working as well.

So it's an approach that we're just in the beginning of, but I think it has some promise. And it's a little different than how Paul characterized the work through the G-8 through the security initiative.

MR. KHARAS: And, Tony, do you want to say just a quick word on non-aid instruments for counties like Myanmar? I mean, obviously the lifting of sanctions was an important step. For the U.S. you've got a range of instruments. How are you trying to bring all of that together as you move forward?

MR. PIPA: It was important for us, I think, just to lift those sanctions. But in consultation with our colleagues at the State Department and throughout the government, I think we're trying to coordinate what our overall approach could be for Myanmar as well.

MR. O'BRIEN: So I hope the questions were well covered. I did want to just make a comment on that beautiful story about the fountain. I will remember that. But here's the thing about the fountain, and to go back to --

SPEAKER: (off mic)

MR. O'BRIEN: No, are you kidding me? I love fountains. I thought it was a great idea. There's going to be another fountain very soon. USAID with this decision to put 30 percent of its funding through local governments and local NGOs is going to fund a fountain somewhere because the government wants the fountain somewhere. And the oversight committees in Congress are looking like hawks at where this money is being spent and wanting to know is that the wisest expenditure of taxpayer dollars?

So watch this space. Sometime in the next year, probably before the elections, we're going to get a fountain story. And the question is, is whether the people in this room and in other rooms are going to say, "Hold on a second, maybe they get to decide to build the fountain sometimes. Maybe that is the thing that their populations need to see earliest. And if not, maybe they're allowed to make some mistakes along the way."

So many of us outside -- I think Homi was right -- there's a number of contractors who think this is not viable, it's bad for their business model, and are questioning whether you're going to get development delivered. But there are a lot of us, including folks who take money from USAID -- we don't -- and contractors who believe this is inevitable, and we need to evolve as a group of actors. And we say USAID is brave, which, of course, we all know in Washington is a euphemism for stupid, but we'd better have their backs when the time comes because it's coming. And only a serious dialogue and debate when the story of the fountain comes is going to stop a massive retrenchment back to a development approach that we know doesn't work.

MR. KHARAS: Paul, thank you. That's a great note. We have reached the end of our allotted time, so unless there's an absolutely burning question, which I don't see, I'm going to bring this to a close.

I would really like to thank our panelists, Rajat Nag in particular as a visitor to Washington, for spending the time with us this afternoon. And I have to say that my sense is that slowly but surely an awful lot is actually happening in terms of changing the behavior of aid agencies and in terms of changing the type of discussion and discourse about development and development effectiveness. And I'm enormously encouraged by the progress that has been made not only on specific outcomes -- and I think outcomes have actually been good. My guess is that in Asia you will see a reversal of the poor outcomes in some of the ADF countries as the global economy strengthens, and it won't be anything to do with you, but it might well be something to do with the strength of the Chinese economy.

So we know that outcomes aren't fully in control of development cooperation. But that said, outcomes across the world and in Asia in particular have been improving at an extraordinary rate, probably at a rate which is faster than we have ever seen before, and I think that that is something that we should celebrate. We should learn from our successes and as Paul said, I think we should really resist the forces which are still quite strong to say "Oh, this is still risky stuff. We can't really see exactly what's happening. We'd better be careful. There are lots of needs at home." There are many, many arguments for why one shouldn't do development cooperation. But in the end if any of those arguments gain strength, we will not have development cooperation and that, I think, would be a real tragedy.

So thank you all very much.

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