

## **DEVELOPMENT EFFECTIVENESS COMMITTEE OF THE BOARD**

### **CHAIR'S SUMMARY OF THE COMMITTEE DISCUSSION ON 26 SEPTEMBER 2007**

#### **I. Annual Report of 2006 Portfolio Performance**

1. The Committee's discussion focused on the following issues of which Management and OED have differing views.

- (i) Recommendation for an index in the Project Performance Report (PPR) to link the number of reported problems to the number of actions taken to resolve them.
- (ii) Whether the PPR should serve dual functions: as a management tool to steer the implementation process, and a gauge of the longer term state of health of the portfolio.
- (iii) Implementation delays and the endemic state of unanticipated problems in project processing and implementation.

#### **A. Index of the PPR**

2. OED asserted that an index is essential and necessary as practiced in the World Bank. For the ongoing work on Project Processing and Portfolio Management (P3M), the principle for an index is the key issue. OED believes that Management should have the flexibility to design an appropriate index. OED's work provides one example of how this might be done.

3. DEC inquired whether the report presented a proposal, instead of just a recommendation. Staff may be apprehensive that any recommendation by DEC would be resource-intensive, rather than a simple suggestion for addressing given issues. One DEC member noted the importance of staffs' (as users) involvement in formulating the P3M. Keen interests of users (staff and Executing Agencies) on the index system are important for the system to function well. The system works well for the World Bank (WB) and ADB may also adopt it. DEC noted that indexing may require vast amount of resources that could instead be used for doing ground work. Another DEC member emphasized the importance of user-friendliness in formulating any system. The creation of just another indicator may not necessarily solve problems.

4. Management (represented by Director General, CWRD; Director, SPMS; and Director, COS1) asserted its disagreement over the index. The principle is acceptable, but not the specific suggestion. The P3M is still being developed and many aspects would need to be explored. OED's suggestion would be assessed along with many other options. Staffs and clients will be given enough participation in the formulation of the P3M, and the new system will suit the needs of both ADB and its clients.

## **B. Dual Functions of the PPR**

5. OED affirmed the importance of distinguishing between a measure of the health of a portfolio and a tool for measuring implementation performance. The purpose being served by each function is quite different. The measurement of the state of health of the portfolio and the yearly trends require a constant set of criteria applied consistently over time, and is a genuine measure of tracking portfolio performance. The management tool requires recalibration to identify poorly performing portions of the portfolio in order to direct resources accordingly. Using the same tool for both purposes will have incentives working towards opposite directions.

6. DEC agreed that PPR having separate tools would avoid confusion on the purposes it should serve. One DEC member disagreed that having separate tools in the PPR will improve portfolio performance. Clarity and familiarity of all users on what the system can provide and how it can be maximized are more important. Available expertise to implement and monitor the system is equally important.

7. DEC also distinguished between management tools and strategic tools. From the strategic perspective, assessing the overall composition of the portfolio requires an appropriate system of monitoring.

8. Management will consider OED's suggestions during the formulation of the P3M.

## **C. Implementation Delays**

9. Other than the delays that occur from approval to implementation, OED noted the significant delays in project implementation. ADB has not taken stock of past experiences and lessons, and used them in estimating more accurate implementation schedules. ADB's use of project readiness filters still could not address this issue.

10. DEC viewed that there should be accountability for cause of implementation delays that are within ADB's control. For problems beyond ADB's control, various methods of interventions should be in place so that ADB can make clients respond and address causes of the delays. DEC emphasized the need for concrete action plans in addressing implementation delays, both for ADB and its clients, including designing complex projects, streamlining implementation procedures, harmonizing ADB procedures with clients' own procedures, etc. The report's recommendations appear to be too simple, lacking in analysis. DEC noted Management's agreement that implementation plans should be realistic and carefully evaluated. Systematic forecasting problems should be avoided.

11. DEC asked whether the delays are concentrated more on project loans than on program loans, which are quick disbursing and less prone to delays. DEC also inquired whether ADB would be obliged to pay compensation if DMCs complain of wrong calculations of implementation periods and unreliable economic analysis. DEC noted the long period between loan approval and implementation, and that some projects seemed to have been prematurely presented to the Board for approval.

12. Management explained that implementation delay is a multi-faceted problem and the solution is not just about schedules. Project design is not solely done by ADB, and

implementation is done by the EAs. ADB exerts adequate due diligence, and shares with its clients particular problem and risk areas. At the approval stage, ADB delivers on the content, policies, basic procedures, principles and best practices. The problem may be in the implementation plan, which needs to be integrated in a Management Information System (MIS). The system can be improved, but that alone cannot address the problems. Inadequate expertise from the available resources also contributes to the problem, and ADB has been trying to address that.

13. Project readiness filters in place are bringing improvements not only in the ADB, but also in the DMCs. The long period between loan signing and loan effectiveness appears to be rigid in the legal documents, but it can be flexible in a way that can provide incentives to both ADB and its clients.

14. OED mentioned adding a year and a half to the schedules would result in more accurate implementation schedules. Management pointed out the downside of adding a year and a half to the implementation schedules, which reduces the incentives and the urgency to finish the project. DEC agreed with Management's view.

15. OED clarified that the analysis on implementation delays include both project and program loans.

#### **D. Conclusions**

16. The Chair noted DEC's view that Management will take into consideration the PPR index and revamp the PPR, also taking into consideration best practices by other MDBs.

17. On having separate tools (early warning devise and measure of portfolio performance), DEC noted Management's disagreement, but saw some merits in OED's recommendation.

18. The Chair noted DEC's balanced view of allowing the Management to consider the recommendation in its formulation of the P3M.

19. On the issue of implementation delays, the Chair noted DEC's view that there should be some improvements in forecasting implementation periods, and avoid over optimistic estimation.

#### **E. Other Issues and Clarifications**

20. **Structure of the Annual Report.** Management anticipated that next year's theme chapter will provide lessons on strategy, sector programming, etc, and requested for advance notice of the proposed theme chapter. OED stated that the theme chapters are now explicit in OED's work program and that Management and OED could further discuss this issue when the position paper for the next Portfolio Report is prepared.

21. DEC suggested a segregated analysis of the ADF and OCR portfolios, and of individual DMCs or groups of DMCs, in terms of performance parameters to calibrate the deployment of project administration staff resources. OED explained that the current

format was based on the comments made by the previous DEC on the length and scope of the earlier reports. The earlier reports had detailed country analyses, but the current report focuses on the key indicators of portfolio performance and the theme chapter.

22. The 2004 portfolio performance was the worst in the last decade and should not be the point of comparison for future performance. Management agreed that careful benchmarking should be made, particularly on deciding which base year will give an appropriate picture.

23. DEC was apprehensive about the report's note that the number of sovereign loans increased because six new DMCs joined ADB; those new members could not have received many loans. DEC also inquired on the ratio of project loans versus program loans, whether the small number, but with big amounts, of program loans approved increased the total lending figure. Management explained that the new member countries have added a limited amount to the total lending figure; the increase has been across the board.

24. **Deriving Project Impact and Outcome.** DEC opined that a contemporaneous feedback may not be feasible since impacts and outcomes are identifiable only after the projects are completed. Attribution may also pose problems given the many exogenous factors. Management agreed that impact analysis requires more time to fix inherent problems.

25. **Economic Analysis.** DEC noted that actual implementation periods are consistently underestimated, distorting the economic analysis. Clarification was sought on how consistently sensitivity analysis is carried out, combining various negative factors, like price increases, insufficient support from Government, etc., to see if the proposals are still economically viable. Further, DEC emphasized the impact of significant delays to the EIRR would reduce it to a level that could not be acceptable for Board approval. Sensitivity testing has been rather mechanical and was not done appropriately to determine project viability.

26. Management explained that economic analysis for a project is always done with sensitivity analysis. ADB does not approve projects that are not economically viable. Delays that may have great impacts are always built-in in the analysis. The approaches cannot be mechanical considering the time and cost dimensions.

27. **Incentives to Staff.** DEC inquired on how the report's recommendations will address the issue that PPR may lead to disincentive for the staffs to report critical developments and report events on factual basis. OED noted that this is an important area that Management should look at.

28. **Design and Monitoring Framework (DMF).** DEC was concerned that the importance of good DMFs is not widely-embraced and not fully understood by staff. DEC also emphasized that creating ownership with the use of DMF is critical, with the outputs as the key objectives. Management asserted that the DMF is well known and understood. Aggressive training programs are ongoing for ADB and non-ADB staff to understand and use DMF. Notable progress has been achieved, and there is room for improvements. OED noted that solutions are insufficient to address the problems on PPR and DMF.

29. **Disbursement.** DEC noted the increase in the speed of loan disbursements due to increased number of program loans, and requested clarification. Management confirmed that aside from program loans, project loans contributed significantly to the increase in disbursements.

30. **Multitranche Financing Facility (MFF).** DEC noted that although MFF is still at the pilot stage, a number of MFFs have already been approved. Management emphasized that although MFF is still at a pilot phase, it has responded well to the increasing enthusiasm of DMCs. Papers on mainstreaming the MFF will go to the Board in due course.

31. **Resident Missions.** Management responded to the report's findings on the delegation of more projects to RMs. The required additional staff is within the prerogative of the RDs and is now being addressed in the WPBF. COSO is reconsidering redeployment of some of its procurement staffs to the RMs. Management further emphasized that delegation of more projects to RMs cannot be supported by solely adding more people in the field. The additional resources should have the authority to decide on real-time issues, without going back to HQ every time and delay delivery of services. Management recognizes this as a deterrent and is considering this among other aspects.

32. **Policy-Based Lending (PBL).** DEC suggested that ADB avoid program loans serving as a mere budgetary support; there should be a reform agenda that is effectively implemented. DEC inquired on the role that IMF assessments play regarding PBLs.

33. DEC noted that the 20% threshold for program loans has been consistently exceeded. DEC inquired on the establishment of the threshold, and who was responsible for overall monitoring of the program lending, in view of the findings that program loan has exceeded 20% of total public sector lending (RMU or RDs). DEC suggested that OED make an appraisal of the 20% threshold on program lending. DEC is of the view that there is a tension between the actual PBL and the threshold.

34. OED emphasized that ADB has been exceeding the threshold of 20% for the past ten years. This issue is covered in a soon-to-be circulated evaluation report on program lending. ADB needs to decide whether to keep the threshold and implement it, to raise the threshold or to abolish it.

35. Management clarified that the 20% threshold, as it was introduced, was a forward looking instrument aimed at ensuring that ADB would broadly remain within a prudent limit of lending, to balance the demands of borrowing countries against the lending program, and avoid a lending program that is too skewed towards programs as opposed to projects. SPD monitors this indicative level that is a three-year moving average. On an annual basis, the threshold may be exceeded, but may still average to 20% over a three-year period. Whenever Management expects to exceed the 20% level, the Board is informed accordingly. The 20% threshold has been exceeded due primarily to the huge amounts of program loans provided to India in 2004. Because of this, even when the program loans were within the threshold in the subsequent years, the spike in lending in a year may continue to make the moving average exceed the limit for sometime. The three-year rolling average may take a few years to normalize to the 20% threshold.

36. There is an ongoing review on program lending, to include the issue of the threshold, and SPD would probably inform the Board on the outcome of this review.

## **II. Any Other Business**

DEC revised its previous decision and agreed to allow DAs to speak during DEC meetings at the discretion of the Chair.

ASHOK K. LAHIRI  
Chair, Development Effectiveness Committee