

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee Discussion on 8 October 2008

I. SPECIAL EVALUATION STUDY - PROJECT PERFORMANCE AND THE PROJECT CYCLE

1. The findings and conclusions of the study were based on analyses of project completion reports and interviews with more than 60 people directly involved in project preparation. The study was however limited by the lack of and difficulty in obtaining relevant data useful for quantitative verification. The study was meant to provide a basis for Management to conduct further studies on project performance and the issues affecting it.

2. Management found the study useful in providing an overview of factors affecting project success and project quality, and agreed to draw on the findings to further analyze the issues and utilize them to improve business processes and project success rates.

3. Management, however, found the conclusions to be premature and based on incomplete analysis. For instance, Management pointed out how the study was critical of the replacement of project briefs with concept clearance at the early stages of preparation. But, Management pointed out, the concept clearance process provides an opportunity for more thorough internal scrutiny through interdepartmental reviews chaired by heads of departments, and Management approval of the concept clearance. Given the methodology used and the limitations of the study, OED emphasized that the study was not meant to be a conclusive analysis in itself.

4. Management also disagreed with the study's recommendation to re-examine the adequacy of current resource allocation for project implementation supervision, and give special attention to start-up delays. OED noted the increasing involvement of local staff from resident missions (RMs), which has resulted in a significant change in the way project supervision is being done, and therefore felt a re-examination of the current resource allocation for project implementation supervision necessary.

5. In addressing start-up delays, OED remained firm in its recommendation to make assistance available to executing agencies (EAs) immediately after loan approval, to enable the EAs to immediately proceed with the start-up activities. Management indicated that the use of readiness filters had proven useful in addressing implementation delays.

6. DEC noted the issue of resource allocation for PPTA and agreed that effective utilization of resources should be the primary concern. DEC also noted Management's efforts in giving priority to project preparatory technical assistance (PPTA) in its work program and budget framework. One DEC member questioned the rationale for further increase of PPTA in the future.

7. DEC supported OED's findings on the systemic ability to learn from past lessons. One DEC member noted the lack of accountability mechanism and ownership on the part of Management on this issue. Another DEC member suggested employing appropriate incentives. Some DEC members asked why the study did not review the impact of project preparation time and cost on the project performance.

8. On the study's finding that project team leaders are overloaded with project processing and administration work, DEC noted the lack of support from other project team members. One DEC member suggested giving the project team leaders the authority to do the performance evaluation of its team members, and also making appropriate incentives available.

9. Some DEC members noted the various differences in the framing of design and monitoring frameworks (DMFs), and emphasized the importance of well-designed DMFs in achieving good implementation results. One DEC member suggested continuous training in preparation of DMF for staff at all levels, adequate resourcing for DMF units and having a consistent approach for DMF across all departments.

Conclusions

10. DEC welcomed the SES on Project Performance and the Project Cycle, which involved an in-depth review of all 75 project completion reports (PCRs) for projects rated less than successful for 2002-2006. DEC noted that the real-time analysis was based on interviews and questionnaires answered by persons directly engaged in the project cycle, including ADB staff, staff of borrowing agencies and third party individuals.

11. DEC welcomed Management's agreement with two of the three major recommendations of OED, and looked forward to tangible progress on their implementation by specific dates.

12. As to the third recommendation, DEC urged OED to re-examine its recommendation on resource allocation for project supervision, including staff from RMs. Furthermore, DEC highlighted three key suggestions of the study, namely: (i) involvement of ADB staff at the project preparation level; (ii) the new procedure regarding clearance of a project concept prior to the preparation of the RRP; and (iii) the reported lack of support from the project team to the project leader. DEC suggested that OED examine these issues, in consultation with Management, and report back to DEC with recommendations.

II. SPECIAL EVALUATION STUDY - ADB ASSISTANCE FOR DOMESTIC CAPITAL MARKET DEVELOPMENT

13. The study found ADB's assistance in capital markets development generally successful and cited areas for improvement in terms of enhancing efficiency and sustainability, strategic positioning and achieving development impact.

14. While agreeing with most of the major recommendations, Management expressed reservations as regards the study's findings that (i) resource transfers under program lending generally exceeded actual adjustment and investment cost associated with the supported reform programs; and (ii) sector impact was not closely related to the level of resources transferred. Management explained that the study did not consider the indirect costs (e.g. political constraints) related to adopting reform programs. Management also emphasized that quantification of the development impact was underestimated as the study did not take into account the opportunity cost of not undertaking the reform programs.

15. OED noted that adjustment and investment costs associated with capital market programs were comparatively low, and mainly related to transaction-based tax measures. Even if indirect costs were considered, these were unlikely to be significant given the nature of capital markets reforms. OED further noted that the economic impact of sector assistance has been rather modest, as reforms have yet to lead to significant capital market development, especially in small countries. Most reforms supported the development of regulatory and legal frameworks for securities markets, which can facilitate market growth only in the presence of conducive economic, policy, institutional, and judicial conditions.

16. DEC acknowledged the timeliness of the SES in providing inputs for the preparation of a Financial Sector Strategy paper by Management. DEC agreed on the need for an internal

mechanism to better coordinate capital market development issues among regional departments, PSOD and OREI. One DEC member suggested an incentive-based approach to the mechanism.

17. In a broad context, DEC emphasized ADB's role in spearheading a regional policy dialogue platform that could encourage coordination and regional integration. Such an approach may also improve the relevance and effectiveness of economic and sector work for capital markets development. DEC highlighted the potential for ADB to leverage on regional financial knowledge. One DEC member called for more efforts by ADB to strengthen the regulatory framework of the financial sector and monitoring capacity on capital flow in the developing member countries (DMCs).

18. Resource issues were discussed in the context of finding the right balance between in-house expertise and external consultancy requirements. Management explained that the current approach (keeping a small number of in-house experts and hiring consultants) has been proven to be cost-effective. OED recommended that resource issues may be addressed in the ADB-wide financial sector strategy.

19. DEC Chair sought clarification on ADB's assistance to small economies; and why the International Organization of Securities Commissions (IOSCO) principle was not being followed or used systematically by ADB. DEC Chair also suggested that a table on estimates of adjustment costs for reform programs should have been provided either in the SES or in Management's response. One DEC member recommended designing an appropriate risk management approach for the sector.

20. Management explained that the ADB's role is to assist small economies in improving the governance of their existing equity markets to ensure investor protection, not in establishing new equity markets, and the policy recommendations for such programs are quite modest.

Conclusions

21. DEC noted ADB's satisfactory performance in providing assistance for domestic capital market development.

22. Given that financial market development is a core operation priority in Strategy 2020 and the lessons drawn from the current global financial crisis, DEC welcomed the SES and fully endorsed the need for ADB to have a corporate level strategy that would guide its financial sector assistance, including its assistance for capital market development.

23. DEC noted that Management has agreed to the recommendations of the SES. DEC emphasized the need for a results framework with monitorable indicators to facilitate monitoring and evaluation of the strategy. DEC also underlined the need to develop cost-efficient approaches to the development of capital markets for small DMCs, in consideration of the low economies of scale in such markets.

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