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Effectiveness of Asian Development Fund Operations

Asian Development Bank

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ABBREVIATIONS

ADB	—	Asian Development Bank
ADF	—	Asian Development Fund
CAPE	—	country assistance program evaluation
CDC	—	communicable diseases control
CPA	—	country performance assessment
CPS	—	country partnership strategy
CSP	—	country strategy and program
DMC	—	developing member country
HIV/AIDS	—	human immunodeficiency virus/ acquired immunodeficiency syndrome
IDA	—	International Development Association
Lao PDR	—	Lao People's Democratic Republic
MDG	—	Millennium Development Goal
MfDR	—	managing for development results
NGO	—	nongovernment organization
OCR	—	ordinary capital resources
OED	—	Operations Evaluation Department
PBA	—	Performance-based allocation
PDP	—	performance development plan
PRS	—	poverty reduction strategy
TA	—	technical assistance

NOTE

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

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EXECUTIVE SUMMARY

The Asia and Pacific region shows continuing progress in reducing poverty, including nonincome poverty. While the prevalence of \$1-a-day poverty has declined in Asian Development Fund (ADF) recipient countries, poverty reduction remains their major development challenge. More than 100 million residents of the ADF countries are living on less than \$1 a day, and the prevalence of nonincome poverty is high.

Given the limited resources of ADF and Asian Development Bank (ADB), the relevance of ADF operations depends on how the fund optimizes its contribution to countries' poverty reduction efforts. ADB is committed to increasing the development effectiveness of ADF operations. In 2004, ADB adopted a results-based monitoring and evaluation framework to monitor and assess implementation of its poverty reduction strategy (PRS). This was in line with recommendations of the PRS review and agreement reached during the eighth ADF replenishment (ADF IX) negotiations. The indicators in this evaluation framework have been broadly harmonized with the indicators of the International Development Association 14. The analysis presented in this paper follows this monitoring and evaluation framework.

The assessment of ADF operations shows that ADB is making good progress toward greater development effectiveness. More ADB projects are achieving their intended outcomes. Improvements in quality of ADB outputs are also evident from the greater results orientation of country partnership strategies (CPSs) and improving portfolio performance. ADB is strengthening its partnerships with nongovernment organizations and other development agencies. It has established benchmarks for critical performance indicators, i.e., perceptions of ADB effectiveness and quality-at-entry of CPSs and projects, to enable future monitoring.

Improvements in the effectiveness of ADF operations are grounded in strengthened institutional effectiveness of ADB. In 2004, ADB adopted a set of ambitious reforms—the reform agenda—to improve its own capacity to manage activities and internal resources for development results. ADB has made considerable progress in implementing the managing for development results agenda, a cornerstone of the reform agenda. Many ADB policies, strategies, and business processes are now updated to reinforce the results focus, efficiency, accountability, and partnerships. Implementation of the 2004 human resource strategy is well under way and remains a high priority of ADB Management. While more time is needed to realize the results of these reforms, the improvement of ADB's human resources and financial indicators are encouraging.

Although the overall assessment shows improvement, several identified issues need to be addressed. ADB must intensify efforts to (i) address portfolio management weaknesses, (ii) implement quality-at-entry assurance systems for CPSs and projects; (iii) improve technical assistance management; (iv) implement the harmonization agenda; (v) promote a knowledge-sharing culture, (vi) mainstream the managing for development results agenda, and (vii) implement the human resource strategy.

I. INTRODUCTION

1. Greater focus on the results of the development efforts of the Asian Development Bank (ADB) began in 2004 with the review of ADB's poverty reduction strategy (PRS)¹ and the adoption of a reform agenda with managing for development results (MfDR) as its cornerstone.² A crucial element of the process is a periodic assessment of ADB's progress at improving development effectiveness. This involves systematically examining ADB's contributions to the development outcomes of its developing member countries (DMCs), the quality of its operations, and the efficiency with which it deploys its resources to attain its objectives.

2. ADB began annual reporting on progress with PRS implementation in 2005. Annual poverty reduction reports, prepared in 2005 and 2006, represent ADB's initial step to report on the progress of its corporate strategy using a results-based monitoring and evaluation framework. In 2006, the 14 indicator sets used in this framework were broadly harmonized with those of the International Development Association (IDA) 14. These indicators cover various facets of development effectiveness: (i) country outcomes—progress in achieving the Millennium Development Goals (MDGs) and other country indicators; (ii) effectiveness of operations—achievement of expected outcomes of ADB operations, quality of operations, mobilization of finance and knowledge, and partnerships; and (iii) institutional effectiveness—progress with institutional reforms to improve ADB efficiency (Table 1 provides a summary of the overall assessment, Appendix 1 provides the list of indicators and overall assessment). Building on the experience with annual poverty reduction reports, ADB is developing a more comprehensive development effectiveness reporting system.³

3. This paper discusses the status of MDG attainment in the Asia and Pacific region, particularly in ADF countries,⁴ reviews ADF operations in support of specific MDGs, and assesses ADB's experience—strengths and weaknesses—in improving the effectiveness of ADF operations. The assessment generally follows the monitoring and evaluation framework adopted for annual poverty reduction reports.

II. COUNTRY OUTCOMES

4. Country outcomes depend on a variety of different factors—economic, social, and political—that are global or domestic in origin. In this context, ADF assistance plays a limited part in contributing to a country's poverty reduction outcomes. Therefore, an important test of effectiveness of ADF operations is how ADB optimizes its contribution with the limited resources at its disposal. Allocation of ADF resources is driven by the revised performance-based allocation (PBA) system approved in 2004. ADB is successfully implementing the revised PBA policy since 2005 and country allocations are now fully aligned with country performance. Adoption of the PBA system is based on the premise that the poverty-reducing impact of

¹ ADB. 2004. *Review of ADB's Poverty Reduction Strategy*. Manila.

² The reform agenda adopted in 2004 focused primarily on reforms to (i) mainstream MfDR; (ii) improve operational policies, strategies, and approaches; (iii) refine organizational processes and structure; (iv) reinforce knowledge management; and (v) improve human resource management and staff incentives. Negotiations for the eighth ADF replenishment provided timely impetus for consolidating ADB's ongoing and planned reform initiatives into an institution-wide reform agenda.

³ As part of the system, ADB is introducing a more comprehensive report on its development effectiveness and preparation of development effectiveness country briefs to assess ADB's achievements in individual countries, including specific development results being delivered through its operations. The country briefs are available at: <http://www.adb.org/ADF/>

⁴ The term "ADF countries" in this paper refers to those countries that have access to ADF.

assistance is maximized when assistance is allocated to countries according to their performance. Apart from this general principle of ADF allocation, ADB assistance also needs to be reviewed in the context of individual MDG targets.

Table 1 : Assessment of Indicators of Development Effectiveness

Indicators ¹	Overall Assessments
A. Country Outcomes: Poverty Reduction in the Asia and Pacific Region	
Millennium Development Goals: income poverty (1a)	Improvement
Millennium Development Goals: nonincome poverty (1b)	Mixed results
Other country outcomes: growth, infrastructure and business environment (1c)	Mixed results
B. Operational Effectiveness	
Outcomes: Improvements in ADB's Operational Outcomes	
Country strategies (2)	Not yet assessed ²
Loan projects (3)	Improvement
Knowledge products (4)	Mixed results
DMC capacity (5)	Improvement
Partnership perceptions (6)	Benchmarked in 2006
Outputs/Activities: Improved Operational Quality, Finance, Knowledge and Partnerships	
Quality of country strategy and partnerships (7a, 7b)	Improvement
Quality of projects (8a, 8b)	Improvement
Loan approvals and disbursements (9a, 9b)	Improvement
Cofinancing (10)	Improvement
Capacity for mobilizing knowledge (11a, 11b, 11c)	Improvement
Partnerships (12a, 12b, 12c)	Improvement
C. Institutional Effectiveness	
Inputs: Human and Budgetary Resources	
Efficient use of human resources (13a–13c; no data for 13d–13f)	Improvement
Efficient use of budgets (14a, 14b)	Improvement
Overall Assessment (based on 12 of 14 indicator sets)	Improvement

¹ Labels of indicators shown in parenthesis are shown in Appendix 1.

² To be assessed once evaluation of results-based country partnership strategies become available.

Source: ADB staff reports

A. Progress in Attaining the Millennium Development Goals

5. ADF countries have shown continued progress in reducing income poverty with the number of poor people living on less than \$1 a day falling from 110 million in 2003 to 104 million in 2005.⁵ Projections indicate that the goal of halving extreme poverty will also be convincingly surpassed by the ADF countries as a whole. However, despite the overall progress, poverty is still the main challenge in ADF countries: more than 100 million residents (about 15% of the population) still live in extreme poverty (less than \$1 a day). About 400 million (almost 60% of the population) live on less than \$2 a day.

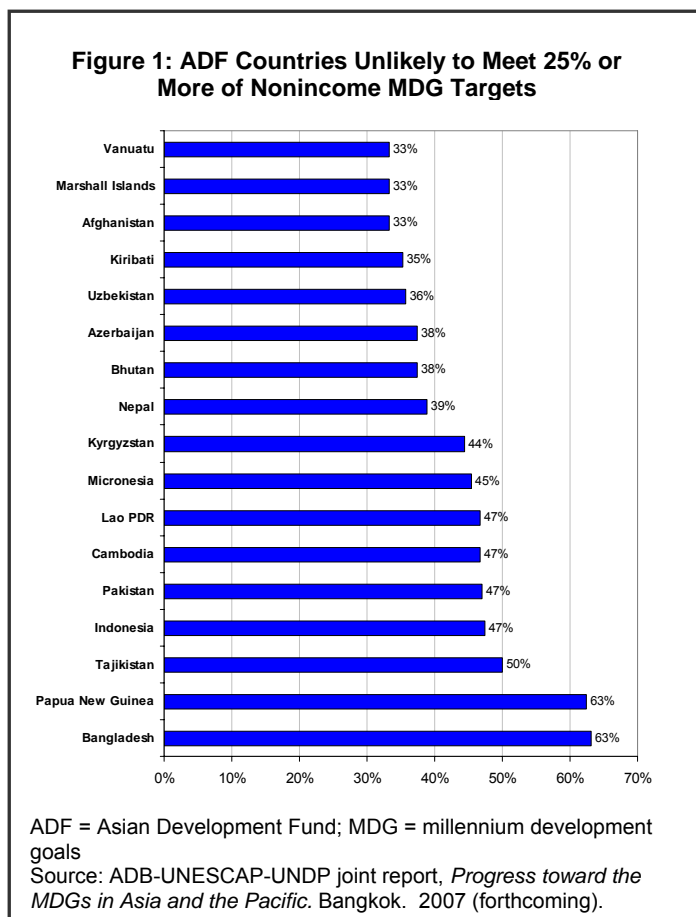
6. For the nonincome MDG indicators, progress is mixed. ADF countries are likely to (i) meet the MDG target on reversing tuberculosis prevalence and death rates; and (ii) achieve several environmental targets such as the area protected to preserve biodiversity and reversing the trend in ozone-depleting chlorofluorocarbon consumption. On the other hand, ADF countries, as well as the region as a whole, are likely to miss several important nonincome MDG targets, including in critical areas such as hunger, education, health, and access to improved

⁵ The number of people in all countries in the region living in extreme poverty declined from 621 million in 2003 to 604 million in 2005. ADB. 2007. *Pro-Poor to Inclusive Growth: Asian Prescriptions*. ERD Policy Brief 48. Manila.

water sources in urban areas and sanitation in both urban and rural areas. In addition, ADF countries are likely to miss the target for improved access to water supply in rural areas and gender equality in tertiary education. Performance of individual ADF countries on the nonincome MDGs vary. As Figure 1 shows, unless current trends are reversed, 17 ADF countries may not meet 25% or more of the nonincome MDG targets studied—half of them may in fact miss the targets by 44% to 63%. Preliminary estimates derived from data of the forthcoming report suggest that nonincome MDG deficits may be even higher at 67% for ADF countries as a whole.⁶

B. Growth, Basic Infrastructure, and Private Sector Development

7. ADF countries are still lagging the rest of Asia in crucial indicators of development. Average annual gross domestic product per capita growth for ADF countries was only 3% during 1990–2005 compared to 6% for ADB's DMCs as a whole. Increasing such growth will require continued investment in infrastructure, particularly from the private sector. According to the latest available data, much of the population in ADF countries still have no access to essential infrastructure: 31% of the rural population lack access to an all-season road (compared to 23% for the region as a whole); and 83% of the population have no telephone connections (compared to 67% in the region). Much work is needed to improve access to water supply and sanitation as the relevant MDG targets are likely to be missed by ADF countries as a whole.



8. In most ADF countries, business start-ups still take a very long time and are costly; the average time for a business start-up is 49 days (against 45 days for the region and 8 days in Singapore). The cost of business start-up procedures is 52% of the average gross national income per capita (compared to 44% in the region and 1.2% in Singapore).

C. Asian Development Bank Contribution to Attaining the Millennium Development Goals

9. After the Millennium Summit of 2000, ADB joined the international community in focusing efforts on achieving the MDGs, adopting them as corporate indicators to measure progress on the long-term objectives of the PRS. This section reviews ADB contribution to the achievement

⁶ See ADB, United Nations Economic and Social Commission for Asia and the Pacific, and United Nations Development Programme: *Progress towards the MDGs in Asia and the Pacific*. Bangkok, 2007 (forthcoming). The study uses 21 MDG indicators.

of specific MDGs in ADF countries. It examines the level and nature of ADF operations in support of specific MDGs, and presents examples of project results (outputs and outcomes) achieved.⁷ The discussion represents only one aspect of ADB contributions to MDGs and does not cover more indirect contributions made through ADF operations in non-MDG sectors.

10. **Income Poverty Reduction (Goal 1).** Through its rapid growth, the Asia and Pacific region has succeeded in reducing poverty; ADB has contributed. During 2004–2007,⁸ about 72% of ADF projects emphasized the theme of sustainable economic growth. Infrastructure lending figures strongly among these and comprises about 45% of total ADF operations (about \$3 billion) during 2004–2007. The current pipelines for ADF operations in 2008–2010 indicate ADB's continuing focus on infrastructure, with about 50% of the total pipelines (\$54 billion) allocated for this sector.

Box 1: Cambodia Rural Infrastructure Improvement Project

The project, completed in 2003, rehabilitated 1,172 kilometers of rural roads, bridges, and crossing structures along these roads, as well as other rural infrastructure such as school buildings, hand-pump wells, and rural markets. The project provided basic social services (health care, skills training, literacy, credit, and extension services) accessible to the rural poor. More than 4 million workdays of employment were generated on road rehabilitation and routine/periodic maintenance, which provided incomes to more than 300,000 local workers. The project also improved the mobility and employment opportunities of the rural poor in farming and nonfarming activities. About half of the households had higher household incomes (increased by about 30% on average) after road construction, because transporting their products to markets was easier and they had more time to do other jobs.

Source: Asian Development Bank. 2007. *Cambodia Development Effectiveness Brief*. Manila.

11. Infrastructure projects have a strong impact on poverty reduction mediated through growth. Several studies show that infrastructure investments also have a strong direct poverty reduction impact.⁹ Increased access to roads can, for example, reduce prices, increase mobility, enable the poor to find better paying work, stimulate production of higher-value crops, and increase the supply of cheaper agricultural inputs (Box 1). Rural electrification stimulates the rural economy and increases opportunities for off-farm employment of the poor. Televisions lead to improved information on crops and contribute to improved farm productivity. Improved lighting allows longer work hours. Rural infrastructure construction provides jobs to the poor. Infrastructure provision contributes to increased trade and growth in countries in the context of regional cooperation. The impact on nonincome poverty is also significant: roads reduce travel time and provide better access to basic services. Lighting increases time for studies, safety, and security; and helps provide better medical services in rural areas.

12. **Universal Primary Education (Goal 2).** The region is likely to come close to achieving the goal of universal primary schooling by 2015. However, the problem of low quality primary education persists. Achieving this MDG will require continuing substantial investments in basic education—a traditional area of ADB assistance. ADB is the lead donor in education in many ADF countries such as Bangladesh, Cambodia, Lao People's Democratic Republic (Lao PDR), Mongolia, Pakistan, Samoa, and Viet Nam. ADB has been instrumental in helping these countries boost enrolment rates in primary and lower secondary schools, and improve the quality of education to make it more relevant to the changing workplace. During 2004–2007, ADB provided about \$780 million in loans and grants in the education sector for ADF countries,

⁷ The samples presented in this paper are drawn from the country development effectiveness briefs being introduced as part of the more comprehensive effectiveness reporting system.

⁸ 2007 figures quoted in this paper are based on ADB staff estimates as of 15 July 2007.

⁹ An example is Cook, Cynthia, T. Duncan, S. Jitsuchon, A. Sharma, and G. Wu. 2004. *Assessing the Impact of Transport and Energy on Poverty Reduction*. Final Report of the Technical Assistance for Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction (RETA 5947). ADB. Manila.

representing 11% of total ADF operations, with more than half the total amount devoted to basic education. The 2008–2010 pipelines show a further \$510 million of investments for 10 projects planned for ADF countries. ADB also has contributed significantly to education (and health) outcomes indirectly through its infrastructure projects.

13. ADB's education sector investments have supported achievement of the MDGs using a two-pronged strategy: expanding access to and improving quality of basic education; and reinforcing basic education outcomes by expanding opportunities for primary/basic education graduates at the next higher level of education. Education projects have also directly supported achievement of the gender equality MDG. ADB has actively embarked on partnerships in this area (Box 2).

14. Gender Equality and Women's Empowerment (Goal 3).

The region as a whole is expected to meet its gender equality in education target (Target 3), although ADF countries are unlikely to meet the target for tertiary education. Health and education sector operations remain the key platform for helping ADF countries achieve this particular MDG. In addition, ADB supports broader gender-related outcomes by mainstreaming gender concerns in selected ADB sector operations, including non-social-sector operations such as transport, microfinance, and governance (Box 3). During 2004–2007, for example, more than 25% of all ADB projects funded by ADF loans integrated gender considerations.

Box 2: Bangladesh Primary Education Sector-Wide Approach

In Bangladesh, the government and 11 development partners—led by the Asian Development Bank (ADB)—have adopted a sector-wide approach to enhance primary education outcomes, through the Second Primary Education Development Program approved in 2003. Nearly \$640 million in financial support from the development partners is being pooled with the government's \$1.16 billion to provide the needed assistance more efficiently. The program for developing the primary education sector covers priority investments and a comprehensive reform framework. The sector-wide approach has led to significant advances in harmonization efforts in the country including for (i) planning and budgeting: a single annual operation plan sets priorities and allocates resources; (ii) procurement: over 80% of expenditures use government procurement procedures; (iii) financial management; (iv) auditing: all procurement and financial management are covered under common statutory and external audits; (v) monitoring and evaluation with common indicators and baselines; (vi) reporting; and (vii) reviewing.

Source: ADB. 2007. *Bangladesh Development Effectiveness Country Brief*. Manila.

Box 3: Nepal: Gender Mainstreaming in the Third Livestock Development Project

The Third Livestock Development Project, completed in 2004, helped reduce poverty, gender disparity, and social exclusion; and provided benefits to poor women. As a result of progress toward gender equality, the Ministry of Agriculture and Cooperatives established a new target for women's participation in the country's agriculture and livestock sector, and prepared its own gender strategy with Asian Development Bank (ADB) support. The project helped poor families, and in particular women; 55.4% of total beneficiaries held less than 0.5 hectares, while 30% of the families came from disadvantaged and low caste communities. Women's participation in the project increased from 15% in 1997 to 51% at project completion, against the appraisal target of 35%. About 44% of representatives from executive committees of partner nongovernment organizations were women. Women who previously had no access to cash income reportedly earned NRs4,000/year from small livestock tending. Women benefited from increased participation, better livelihood options, increased income, and time-savings due to the proximity of forage and fodder. Increased income was spent on essentials such as food, oil, clothes, education, and family health care.

The project's gender action plan effectively promoted gender mainstreaming. Women's access to new social networks combined with their own independent identity through group membership have improved their social status, increased their public speaking skills, and provided greater personal freedom. Increased access to cash income has improved their self esteem and resulted in greater recognition of women's contributions to the livelihoods of poor households.

Source: ADB. 2007. *Nepal Development Effectiveness Country Brief*. Manila.

15. **Maternal and Child Health (Goals 4 and 5).** ADF countries are likely to miss the major goal relating to child mortality. In 2000, ADF countries accounted for nearly 16% of the world's maternal deaths due to childbirth. Owing to a variety of factors, such as presence of other active donors in the field, lack of adequate staff skills and concessional resources, and low project success rates, ADB's support for health sector interventions has been low compared to other sectors. During 2004–2007, ADB provided loans and grants totaling \$274 million for ADF countries (4% of total ADF operations), mainly in support of improving primary health care (Box 4). The 2008–2010 pipelines show that a further \$381 million of loans and grants is planned for this sector in ADF countries.

Box 4: Better Health for Mongolian Villagers

The Asian Development Bank (ADB), in close partnership with the Government and key stakeholders, has been supporting the health sector in Mongolia since 1997. In 2003, ADB approved a \$14 million Asian Development Fund loan for the Second Health Sector Development Project to improve rural health services, especially for the poor and vulnerable, and to build the capacity of the health sector through reforms in sector efficiency, effectiveness, and sustainability.

The project is helping improve rural health services in five aimags (provinces) chosen because of their high levels of poverty, infant and maternal mortality, and infectious disease. More than 422,000 Mongolians—about 17% of the population—are benefiting from the project's rural health component, which has raised vaccination rates to 98% among children under 5 years of age in the project area, above the national target of 92%. The average length of hospital stay has decreased from 10 to 8 days. Contraceptive use in the project aimag has reached 55% among women aged 15–44, above the national average of 43%.

The project also trains community nurses, district doctors, district and provincial administrators, economists of the health department, and staff of the health insurance organization to help the Ministry of Health build institutional capacity. The project supports key reforms in the sector, including strengthening primary health care through family group practices, improving hospitals, and developing human resources in the health sector. Twenty-three district health centers, five interdistrict hospitals, and four provincial center hospitals have been built or renovated, and equipped.

Source: ADB staff reports.

16. **Support for HIV/AIDS, Malaria and Other Diseases (Goal 6).** Given current trends, ADF countries as a group are likely to significantly lower both the prevalence and number of deaths from tuberculosis by 2015 compared to 1990. HIV/AIDS is a major concern for the region, which has an estimated 7.8 million living with the disease; this comprises 26% of the world's afflicted population. ADF countries account for about 3% of people with the disease.

17. ADB has adopted the control of communicable disease as a major activity area under its regional cooperation strategy (Box 5). In 2005, ADB agreed with the Government of Sweden to handle a multidonor cooperation fund of \$12.9 million to undertake more research to control such diseases; scale-up prevention and mitigation measures; improve information sharing, disease awareness, and advocacy efforts; and build capacity in countries for effective response. At the same time, ADB is building HIV/AIDS prevention components in its roads and transport infrastructure projects, where appropriate.

18. **Environmental Sustainability (Goal 7).** In the area of environmental sustainability, current trends indicate that ADF countries are likely to reverse the trend in chlorofluorocarbon consumption and increase the area protected to maintain biological diversity. However, ADF countries are unlikely to reverse the loss of forest cover and carbon dioxide emission trends from 1990 levels. They will also fail to meet targets in access to improved water supply and sanitation. Given considerable challenges, ADB is supporting the countries to achieve two

important targets in the environment goal: integrate principles of sustainable development in country policies, and increase access to safe water and improved sanitation.

Box 5: Greater Mekong Subregion: HIV/AIDS and Communicable Diseases Prevention

Communicable Diseases Control (CDC) Project. This Asian Development Fund-funded regional project is helping strengthen the national surveillance and response system and develop community-based models in the participating countries in controlling outbreaks of disease, including avian flu, malaria, and dengue; and in improving the continuum of care for control of HIV/AIDS in high-risk populations. Regional coordination for CDC through policy dialogue is being strengthened. A regional health forum will be convened in November 2007 in Vientiane to promote subregional cooperation in CDC and health systems development.

HIV/AIDS Prevention in Cross-Border Areas of the Greater Mekong Subregion. A technical assistance project cofinanced by the Asian Development Bank (ADB), United Nations Economic and Social Commission for Asia and the Pacific, and the Southeast Asian Ministers of Education Organization successfully developed a regional training curriculum for HIV/AIDS prevention and five training curricula in local languages, teacher-learning materials in local languages, and teacher guides for HIV/AIDS preventive education. The project provided basic information and communications technology hardware to 30 schools. It developed innovative approaches to disseminate information on HIV/AIDS through culturally and linguistically suitable medium of soap operas. Building upon the successful outputs of the completed project, a follow-on technical assistance project has expanded the scope of HIV/AIDS preventive education communication strategies to cover additional ethnic minority groups. The clearinghouse facility and geographic information system for vulnerability mapping are also being expanded and a network for improving research on HIV/AIDS and human trafficking initiated.

Source: ADB. 2007. *Greater Mekong Subregion Development Effectiveness Brief*. Manila.

19. During 2004–2007, ADB provided \$1.2 billion in ADF loans and grants, representing 19% of the total, through 28 loans with the theme of environmental sustainability in support of MDG 7. These projects aim to strengthen the environment policy and institutional framework in the DMCs, improve their capacity for managing natural resources, control and mitigate effects of pollution, and support adoption of cleaner and energy efficient technologies. ADB has been increasingly involved in recent years in the latter area. It supported 35 projects during 2004–2006, including 11 ADF projects totaling \$225 million. ADF countries implementing clean energy interventions include Afghanistan, Bangladesh, Cambodia, Indonesia, Pakistan, Tajikistan, Uzbekistan, and Viet Nam.

20. More than 650 million people in the region remain without safe drinking water; and almost 2 billion without improved sanitation, a significant proportion of which are in ADF countries. During 2004–2007, ADB provided total support of \$630 million in ADF loans through 18 projects aiming to provide safe water, improved sanitation, and solid waste and wastewater management. Cognizant of the major challenges, ADB adopted the Water Financing Program to significantly expand its support in this area.

21. **MDG Support through Regional Partnerships.** ADB provides support to the MDG effort in general through an active regional partnership with the United Nations Development Programme and United Nations Economic and Social Commission for Asia and the Pacific. The \$4.5 million project, supporting the achievement of the MDGs in the Asia and Pacific Region, began in 2004. The project monitors progress on the MDGs; prepares technical reports and papers; provides forums for dialogue, and exchange of best practices and experiences; and engages in statistical capacity building support for MDGs.

III. EFFECTIVENESS OF OPERATIONS

22. Country outcomes depend on a variety of factors that are beyond ADB's control. On the other hand, ADB has much more influence over its own operations to ensure successful delivery of expected country and project results from its operations. Broadly in line with the results-based monitoring and evaluation framework of annual poverty reduction reports, this section reviews ADB's performance in improving effectiveness of ADF operations relating to (i) achievement of intended country and project development outcomes of ADF operations at completion and after completion; and (ii) progress in delivering specific targets on quality of operations at entry and during implementation, mobilization of finance and knowledge, and partnerships.

A. Improvements in Delivering Operational Outcomes

1. Achievement of Country Partnership Strategy (CPS) Operational Outcomes¹⁰

Indicator: Annual evaluation ratings of results-based CPSs

23. **Lessons are systematically integrated into new CPSs.** With the CPS forming the key platform for prioritizing ADF operations, ADB's achievement of the CPS objectives constitutes a most critical element of its overall operational effectiveness. As an important part of MfDR, in 2004 ADB introduced a system for developing a results-based CPS. Unfortunately, these CPS have not yet reached the evaluation stage. In the absence of the evaluation ratings, country assistance program evaluations (CAPEs) by ADB's independent Operations Evaluation Department (OED) provide some useful information on country operational outcomes. Since 2004, six CAPEs have been prepared for Bhutan, Cambodia, Indonesia, Lao PDR, Nepal, and Uzbekistan. Satisfactory country operational outcomes are clearly discernible in half of these countries; while others show mixed results. Several themes recur, and country operations rated as "satisfactory" address these themes more effectively than those where results of operations have been mixed. These themes include improved portfolio performance; relevance of strategy and program, and strength of linkage between them; outcome sustainability; success of institutional strengthening efforts; sector selectivity; outcomes from nonlending products; quality of aid coordination and harmonization; and efforts at private sector participation. To ensure satisfactory delivery of country operational outcomes, operations departments systematically integrate CAPE lessons into the design of new CPSs (Box 6).

Box 6: Integration of Lessons in Lao PDR Country Partnership Strategy

The Lao People's Democratic Republic (Lao PDR) country assistance program evaluation (CAPE) identifies several important issues. These include limited absorptive capacity, sector selectivity, stronger harmonization and partnerships with development organizations, improved client readiness, greater focus on governance and anticorruption activities, improved management of technical assistance resources, and an enabling environment for private sector development. To address these issues effectively, the new country partnership strategy (CPS) emphasizes support for pro-poor sustainable growth with reduced but more focused sector strategies (agriculture, health, and education), inclusive social development, good governance, private sector development, and regional cooperation. It gives special attention to a critical binding constraint—public sector financial management—and supports capacity development investments in the focus sectors. The CPS provides a special appendix to highlight how lessons are integrated into its design.

Source: Asian Development Bank (ADB). 2006. *Country Assistance Program Evaluation: Lao PDR*. Manila; and ADB. 2006. *Lao PDR: Country Strategy and Program 2007-2011*. Manila.

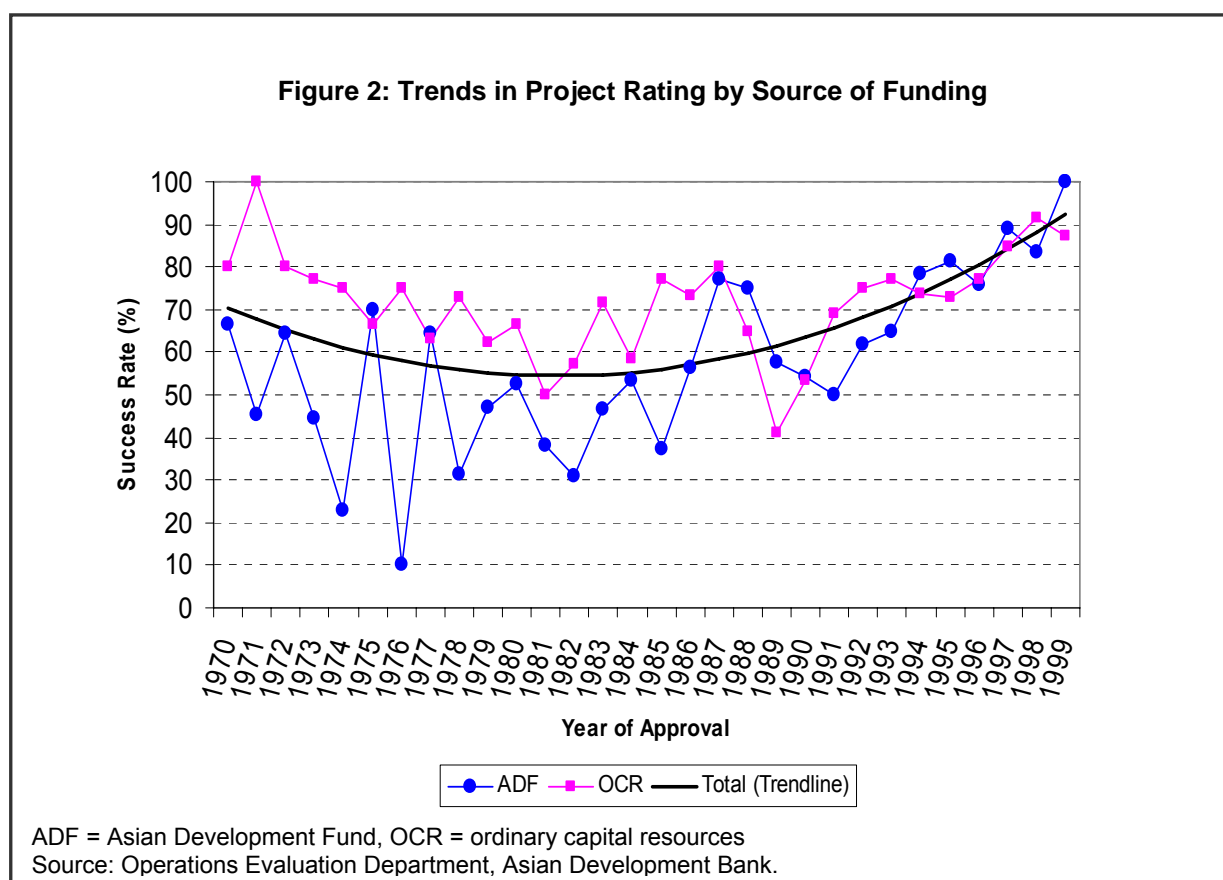
¹⁰ CPS was formerly called the country strategy and program.

2. Achievement of Outcomes of Loan and Technical Assistance (TA) Projects

Indicators: Loan: Project performance evaluation report and project completion report ratings

TA: TA performance evaluation reports and TA completion reports

24. **Success rates of ADF loan projects and programs are high and rising.** Satisfactory performance of individual projects is essential for achieving the CPS and RCSP objectives. OED evaluation shows that the success rate for loan projects, which was declining until the mid-1980s, has continued to improve.¹¹ Even more encouraging, the success rate of ADF projects, which had been much lower than for ordinary capital resources (OCR) projects, has caught up with the OCR success rate (Figure 2). Another independent OED evaluation on program (or policy-based) lending indicates that while the performance of earlier program lending in ADF countries was mixed, it has been improving since the mid-1990s.¹²



25. **Success rates of TA projects are high, but could be improved.** Ratings from both TA performance evaluation reports and completion reports show steady progress in improving TA performance. While the completion report ratings for successful TA projects remained above 80% during 2004–2006, TA performance evaluation report ratings varied—27% in 2004, 50% in 2005, and 83% in 2006—due possibly to a small number of evaluated TAs. A recent OED study on TA performance notes that two thirds of the TA projects evaluated succeeded in delivering

¹¹ ADB. 2006. *2006 Annual Evaluation Review*. Manila.

¹² ADB. 2007. *Policy-Based Lending in ADB: Recent Trends and Good Practices from Evaluation*. Manila.

expected outcomes.¹³ However, management of the project to ensure strategic focus, DMC ownership, and quality at entry still could be improved. A TA reform proposal designed to improve TA management is scheduled for Board discussion in late 2007.

3. Improvements in DMC Capacity

Indicator: Governance and public sector management assessment from country performance assessment (CPA)

26. **CPA results suggest that the capacity of ADF countries is improving.** ADB considers that strengthening DMC capacity to formulate and implement policies, reforms, and investment for growth and poverty reduction, is essential for accelerating poverty reduction in the region. ADB is reinforcing its assistance in this area and is committed to measuring its impact based on the indicator adopted for this result. In 2007, ADB approved the capacity development medium-term framework and action plan. The plan stresses the importance of promoting more demand-driven, effective, and efficient support for capacity development operations, focusing on improved service delivery and better legal and regulatory enforcement, as well as longer term impacts on quality and coverage of public services (Box 7). Assessment of this indicator—ratings in relation to governance and public sector management capacities undertaken as part of the broader CPA system—shows improvement in recent years.¹⁴

Box 7: Support to Strengthen Governance and Public Sector Management Capacities

Pacific Region. The regional technical assistance (TA) cofinanced by Australia for Strengthening Governance and Accountability in Pacific Island Countries, approved in 2006, focuses on strengthening public auditing capacity. It will also strengthen the governance and anticorruption orientation of the Asian Development Bank (ADB) country strategies in the Pacific.

Afghanistan. One component (financed through the ADB-administered Governance Cooperation Fund) of the Support to the Afghanistan National Development Strategy TA, approved in 2006, will support the preparation of institutional corruption risk assessments and risk management plans to mitigate opportunities for corruption in the transport and energy sectors and in customs, assist in compiling good practices and lessons, and support the development of a national anticorruption strategy. ADB's anticorruption activities in Afghanistan are harmonized with similar efforts in other sectors by the United Nations Development Programme and the World Bank.

Nepal. A project preparatory TA for the Governance Reforms and Decentralization Cluster Program of 2006 will support the government in promoting good governance, as reflected in more transparent, predictable, and accountable local government administration. It will also assist in improving frontline service delivery and reducing corruption in the public sector, through active public participation. The program plays a critical role in resolving conflict and broadening the development space in the country, given that the conflict centers on the exclusion of vast segments of the rural populations from government services, as well as opportunities for economic growth.

Source: ADB staff reports.

¹³ ADB. 2007. *Special Evaluation Study: Performance of Technical Assistance*. Manila.

¹⁴ The comparison over time is approximate since the assessment questionnaire and rating system has been evolving. See a separate discussion paper entitled *Refining Performance-Based Allocation*, circulated for the ADF X Donors' meeting in Sydney in September 2007.

4. Improvements in Development Effectiveness Perceptions

Indicator: Partnerships survey results every 3 years

27. **ADB is generally considered to be an effective and helpful institution.** ADB conducted a comprehensive multinational perceptions survey in 2006 to assess the perceptions of clients and opinion leaders of ADB's development effectiveness. The findings suggest that ADB is generally perceived to have a positive impact on the development process of the countries it serves. ADB clients—opinion leaders with some involvement in an ADB program, project, or research study in the past 3 years—are particularly positive about ADB's impact and helpfulness. ADB operations supporting infrastructure and regional cooperation and integration were recognized as ADB's biggest strengths. At the same time, the survey findings send a clear message that improvement is needed in a number of areas, including improvement of procedures and practices, and more proactive communication with stakeholders about ADB operations, including in the area of poverty reduction. These issues are being addressed by ADB's ongoing reform initiatives to improve its operational efficiency (paras. 48-56).

28. Many development partners have also begun reporting on their perceptions of the effectiveness of ADB and other multilateral financing institutions; this is providing valuable feedback.¹⁵ Apart from strengthening its overall development effectiveness, ADB is taking several steps to improve communications and disseminate information on its activities and outputs through the various operations departments, knowledge management outlets, representative offices in donor countries, and resident missions. ADB's websites are also being substantially revamped.

B. Improvements in Operational Outputs

1. Improved Quality of CPS

Indicators: Number of results-based CPSs
Quality-at-entry rating of CPSs

29. **All CPSs are results based.** Results orientation is a cornerstone for ensuring ADB's operational quality. Since the introduction of a results-based CPS system in 2004, ADB prepared 12 CPSs,¹⁶ of which 10 were for ADF countries. Overall, the development of the results-based CPS continues to evolve, and continuous improvements are being supervised by Management, under the new CPS guidelines introduced in 2006.

30. **More systematic quality-at-entry assessment of CPSs established.** In 2006, ADB adopted criteria to judge quality-at-entry of CPSs. The criteria focuses on (i) country diagnostics, (ii) identification of lessons, (iii) country strategy, (iv) country program, (v) performance indicators/results framework, (vi) risk assessment and mitigation measures, and (vi) preparation process.

31. The first assessment of the quality at entry of CPSs evaluated six CPSs approved in 2004 and 2005 (of which five were for ADF countries) and identified lessons that can be

¹⁵ Such as Department for International Development. 2007. *Asian Development Bank Effectiveness Summary*. Draft. London; evaluation reports by Multilateral Organisations Performance Assessment Network; and Canadian International Development Agency.

¹⁶ These CPSs were prepared for Bangladesh, Bhutan, Cambodia, Indonesia, Lao PDR, Mongolia, Nepal, Papua New Guinea, Philippines, Thailand, Uzbekistan, and Viet Nam.

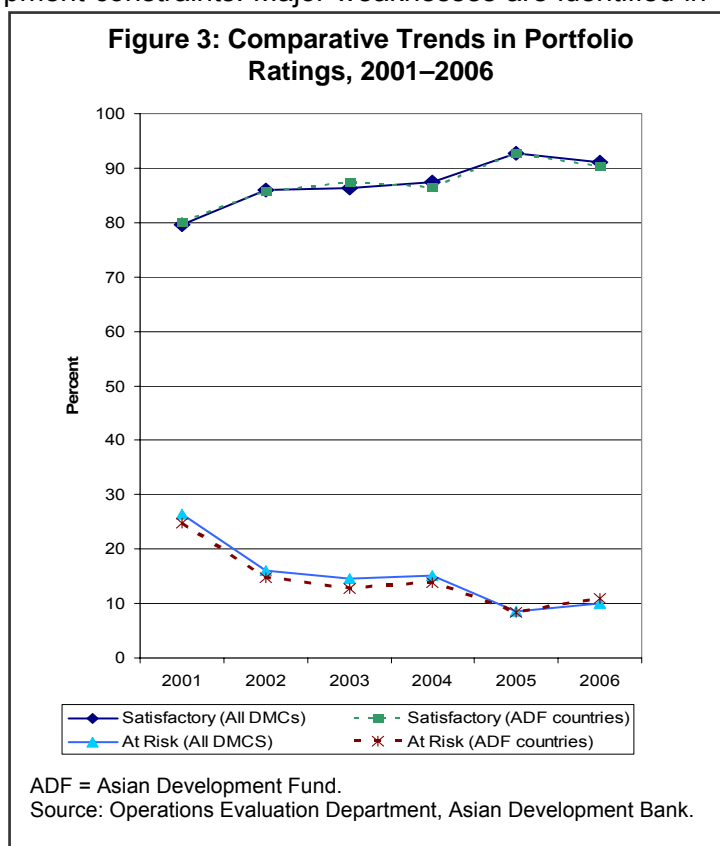
incorporated in new CPSs.¹⁷ The assessment noted progress in making CPSs more results-oriented and found CSP preparation process satisfactory. At the same time, it highlighted the need to improve sector and thematic diagnostics to identify more clearly binding constraints to development to guide strategies and programs. The five new 2006 CPSs (Indonesia, Lao PDR, Papua New Guinea, Uzbekistan, and Viet Nam) incorporate the findings of the assessment, particularly to ensure that (i) the CPS is linked to country development plans, (ii) CAPE recommendations are adopted where appropriate, (iii) recommended programs are consistent with country priorities, (iv) strategies and programs are linked, (v) lessons previously identified and incorporated in CAPEs or other evaluation documents are appropriately integrated into the design of a new CPS and (vi) results matrixes are well formulated, although depth and detail may vary.

2. Improved Quality of Projects: at Entry and during Implementation

Indicators: Quality-at-entry rating of projects
Portfolio performance ratings

32. **Benchmarks for project quality-at-entry established.** Similar to quality-at-entry of CPSs, ADB has established a system of quality-at-entry assessment of projects. The first assessment of project quality at entry, which established a benchmark for future comparisons, confirmed ADB's strength in designing good projects. It notes that most projects were well-aligned with diagnostic findings on development constraints. Major weaknesses are identified in the implementation arrangements and schedule, the fiduciary aspects, and risk assessment.

33. **Portfolio performance is improving.** The proportion of projects under implementation rated as "satisfactory" has increased from less than 80% about 5 years ago to more than 90%. This rating is now about the same for ADF projects as for OCR projects. Similarly the proportion of projects classified as being "at risk" has shown a declining trend during the same period, and this proportion has tended to be lower for ADF projects than for OCR projects (Figure 3).¹⁸ Common implementation problems identified include delays in loan signing, loan effectiveness, and land acquisition; lack of political commitment to implementing reforms; civil conflicts; and delays in submission of audited financial statements.



¹⁷ These include CPSs for Bangladesh, Bhutan, Cambodia, Mongolia, Nepal and Philippines. For a more detailed discussion on the assessment, see ADB. 2006. *2005 Annual Poverty Reduction Report: Progress in Implementing the Poverty Reduction Strategy*. Manila.

¹⁸ Note however that OED is now reviewing the portfolio performance classification system.

3. Increased Mobilization of Development Finance

Indicators: Volume of approved loans and disbursements
 Net resource transfer
 Amount of cofinancing mobilized

34. **Amount of lending and net resource transfer to ADF countries remain constant.** With ADF's declining share in ODA, the absolute level of ADF loan approvals has remained constant in nominal terms in recent years at around \$1.5 billion per year. Disbursement to ADF countries rose by 7% in 2006 compared to 2005. Net transfer of resources to ADF countries has not changed significantly in recent years, ranging between \$600 million and \$700 million.

35. **ADB is mobilizing significantly more cofinancing for the DMCs.** Cofinancing in 2006 amounted to \$5.9 billion or 80% of total ADB lending, including \$880 million for ADF countries. Total direct value-added cofinancing amounted to \$1.4 billion, of which \$463 million was mobilized for ADF countries.¹⁹ Nondirect value-added cofinancing amounted to about \$4.5 billion—\$417 million for ADF countries—in the form of parallel grants and loans for ADB-financed projects and programs. Direct value-added cofinancing, which includes credit enhancement operation such as guarantees and syndications, and concessional financing such as grants and official loans, has increased substantially due to the significant growth of syndication operations for lending without sovereign guarantees to the public and private sectors. The 80% cofinancing ratio reached in 2006 (70% for ADF countries) far exceeds the benchmark average of 46% during 2002–2004. The predominant share in cofinancing is from commercial sources (81%); the rest from official multilateral and bilateral partners.

4. Improved Capacity to Mobilize Knowledge

Indicators: Number of articles from ADB staff in refereed publications
 Number of hits on ADB and poverty websites
 Annual most admired knowledge enterprises survey assessments of knowledge management activity

36. **ADB staff are more proactively sharing knowledge.** ADB staff published 72 articles and papers in refereed journals and publications in 2006, compared to 61 in 2005 and 43 in 2004. Staff presented 115 papers at conferences, the same number as in 2005 (which was used as a benchmark). The participation of staff in knowledge management activities needs to be actively supported given their importance in furthering knowledge exchange and enabling the institution to keep fully abreast of international developments and practices.

37. **Visits to the ADB website and ADB poverty website are increasing steadily.** Visits to the ADB website grew by 17% in both 2005 and 2006, signifying that interest in ADB's contribution to development is growing. The number of hits on the poverty site grew by 207% in 2006 after a 34% increase in 2005; this large increase suggests a wider awareness of ADB's activities toward its overarching objective of poverty reduction.

38. **Progress in implementing the knowledge management agenda is steady; greater staff engagement is needed.** The December 2006 most admired knowledge enterprises

¹⁹ Direct value-added cofinancing involves active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by ADB to facilitate mobilization, administration, or participation in cofinancing. Starting in 2006, cofinancing statistics indicate direct value-added cofinancing. See ADB. 2006. *ADB's Financing Partnership Strategy*. Manila.

survey indicates an improvement in ADB staff ratings of their perception of ADB's knowledge management process and its implementation. The indicator rose to 43.5 (out of 80) in 2006 from 39.5 in 2005, the year this survey was first undertaken. The 2006 survey concludes that the "challenge for the ADB is to continue to work with professional staff to demonstrate the value of the knowledge management implementation process."²⁰

39. ADB continued to generate and disseminate knowledge through TA; economic and sector work; thematic studies of significance to DMCs; and country, regional, and global conferences, seminars, and workshops. TA continues to be one of the important components of ADB's knowledge-sharing activities. To expand the impact of TA operations through sharper selectivity, ADB has begun limiting the number of TAs per year. In 2006, 260 TAs (\$242 million) were approved compared to 321 TAs (\$195 million) in 2004. It has also substantially reduced the number of TAs being administered from 1,016 in 2004 to 959 in 2006. A TA reform proposal to improve TA management is scheduled for Board discussion in late 2007.

5. More Effective Partnerships

Indicators: Proportion of projects with nongovernment organization (NGO) participation
 Number of program-based approaches supported
 Proportion of joint CPS and county performance review missions conducted annually

40. **ADB is strengthening partnerships with NGOs.** In 2006, NGOs participated in 55 projects or 69% of total loan projects approved, marginally higher than the benchmark of 65% in 2004 but a considerable improvement over the 55% during 2001–2002. Strong NGO participation was particularly evident in ADF countries: 65% of all projects with NGO involvement in 2006 were for these countries. NGO participation also increased in advisory and project preparatory TA projects from 17% during 2001–2002 to 43% in 2006.

41. **ADB is strengthening support for program-based approaches.** Program-based approaches, which are new partnership arrangements, have replaced sector-wide approaches and are in line with agreements at the Paris Declaration on Aid Effectiveness to strengthen partnerships and country leadership.²¹ Between 2004 and 2006, nine program-based approaches were approved: four in 2006, two in 2005, and three in 2004. All but one of these program-based approaches were in ADF countries, focusing primarily on the education and health sectors. Despite the increase in number, the proportion of assistance using these approaches remains relatively low for ADB.²²

42. **Proportion of joint CPS and county performance review missions has increased but scope exists for improvement.** ADB continues to undertake more joint operations missions with its development partners. The proportion of CPS and portfolio review missions conducted jointly with the World Bank and other development partners was 33% in 2006, 36% in 2005, both over the benchmark of 26% in 2004. Partnership efforts could improve in areas of coordination, strategy formulation, and harmonization of implementation processes.

²⁰ Teleos. 2006. *Assessment of ADB's Knowledge Management Implementation Framework*. Ludlow, Shropshire, United Kingdom.

²¹ Paris Declaration on Aid Effectiveness, ADB, Manila, IN. 310-05

²² A more detailed discussion of ADB's progress on program-based approaches progress is given in a background paper, *Implementation of the Paris Declaration in ADF Countries*, circulated for the ADF X Donors' meeting in Sydney in September 2007.

43. **ADB is actively engaged in integrating the principles of the Paris Declaration into its operations.** The Paris Declaration on Aid Effectiveness of March 2005 stipulates partnership commitments for both partner countries and donors, which were to be monitored through a specific set of progress indicators. Resident missions play a key role in delivering the commitments and ADB has been strengthening their capacity to coordinate with governments and development partners. Considerable progress in supporting the Paris commitments is noted in many ADF countries, such as Cambodia, Kyrgyz Republic, Lao PDR, Viet Nam, and the Pacific DMCs, where formal arrangements to ensure fulfillment of the agreements have been established.²³ ADB is an active participant and provides countries with necessary assistance to fulfill their commitments. While required actions are already being pursued, as indicated in the Organization for Economic Co-operation and Development-Development Assistance Committee 2006 *Survey on Monitoring the Paris Declaration*, ADB needs to make additional efforts to enhance harmonization and work more closely with its partner countries to improve on some aspects of alignment, results, and mutual accountability. A more detailed discussion of ADB's progress in implementing the Paris Declaration is given in a background paper, *Implementation of the Paris Declaration in ADF Countries*, circulated for the ADF X Donors' meeting in Sydney in September 2007.

IV. INSTITUTIONAL EFFECTIVENESS

44. To strengthen the overall effectiveness of operations, ADB needs to sharply align its key organizational elements—culture, policies and processes, structure, skills mix, and internal resources—with its strategic agenda. This would enable ADB to efficiently manage its internal (human and financial) resources to provide better and faster assistance to its DMCs. To achieve this, ADB began implementing various reform initiatives to effectively pursue its mission of poverty reduction. In line with recommendations of the PRS review in 2004 and agreements reached during the ADF IX negotiations, ADB reinforced its commitment to internal reforms and introduced a number of high-priority reforms. These became integral parts of the reform agenda launched in June 2004. As reported during the ADF IX midterm review meeting in 2006, ADB made significant progress in completing the specific commitments made during the ADF IX negotiations, and is undertaking follow-up actions to reinforce their implementation.

A. Internal Resource Management

45. **ADB continues to improve the efficiency of use of financial resources.** In 2006, despite a significant absolute increase, administrative expenses per \$1 million of approved loans fell to \$41,000. This represents a substantial improvement in efficiency over the 2004 baseline of \$54,600. The administrative expenses per \$1 million disbursed also declined from the 2004 baseline of \$74,900 to \$49,600. This is attributable to the increased volume of lending and disbursements achieved in 2006 and several measures undertaken following the innovation and efficiency initiative, such as improved procurement and consultant recruitment procedures, and increased delegation of work to resident missions. These financial performance ratios indicate that ADB's administrative resource management is efficient and compares well with available benchmarks, as is evident from a recent report of the Department for International Development.²⁴

²³ Details are on the Aid Harmonization website: <http://www.aidharmonization.org>.

²⁴ Department for International Development. 2007. *Draft Asian Development Bank Effectiveness Summary*. London (June).

46. **Human resource indicators show some improvements.** Of the total 86 staff increase during the 2004–2006 period, 52 staff (61%) were assigned to the operations departments. More than 20% of the total professional staff and national officers are now assigned to resident missions. ADB has also reduced average hiring time for internal recruitment (from 65 working days in 2004 to 42 working days in 2006) and external recruitment (250 working days in 2004 to 112 working days in 2006), and expanded the program for staff development. ADB is conducting a review to determine appropriate indicators and targets for operational experience of staff.

47. Since the most recent 2003 survey on staff motivation and engagement, several surveys were conducted on staff welfare services. In 2007, surveys were conducted on revisions to the 2006 performance development plan (PDP) and bonus schemes.²⁵ The preliminary work for the next staff engagement survey, to be conducted by an independent external consulting firm, will commence in the fourth quarter of 2007. The selected consultants will consult with a cross-section of staff to develop appropriate questions and measurement approach. The results of the survey will serve as a major input for the review of the human resource strategy aligned to priority areas under ADB's long-term strategic framework.

B. Progress in Reforms since 2004

48. ADB's reform agenda comprises several reforms that can be grouped broadly as initiatives to (i) mainstream MfDR; (ii) improve operational policies, strategies, and approaches; (iii) refine organizational process and structure; (iv) reinforce knowledge management; and (v) improve human resource management and staff incentives. Since 2004, ADB has advanced considerably in translating reform commitments to action. Most of the planned reforms have been adopted and are being implemented. At the same time, some issues emerging during implementation require attention. The latest status on individual reform initiatives is also discussed in the status report, *Major Achievement of ADB's Reform Agenda—First Quarter of 2007*.²⁶ A discussion of the highlights of progress in reforms follows.

49. **ADB reinforces implementation of the MfDR initiative by incorporating lessons.** ADB has been implementing MfDR as part of its reform agenda since 2004. In August 2006, based on suggestions of the 2005 external assessment²⁷ and other identified lessons, it formulated a revised action plan for 2006–2008. Progress under that plan, arranged according to each MfDR pillar, is summarized here:

- (i) **Pillar 1: Support DMC capacity for MfDR.** ADB has been conducting dialogue on MfDR with the countries, supported by 19 TAs; statistical capacity building for very weak DMCs; and implementation of an intensive program to train DMC staff in improved results techniques for projects. Over 600 DMC officials have received training. In addition, the community of practice on MfDR,²⁸ established in March 2006 with ADB assistance, has emerged as one of the most important MfDR capacity building initiatives for DMCs and as international best practice

²⁵ In 2006, a performance bonus was introduced for exceptional performers among professional staff. In 2007, a team bonus was introduced in addition to the performance bonus, to reward individuals who contributed significantly to a team or exhibited exemplary team spirit.

²⁶ ADB. 2007. *Major Achievement of ADB's Reform Agenda—First Quarter of 2007*. Available: <http://www.adb.org/ReformAgenda>

²⁷ Independent Assessment of Managing for Development Results at ADB, Universalia, November 25, 2005

²⁸ For details of the community of practice, see <http://cop-mfdr.adb.org>

being now emulated in Africa and Latin America. Strengthening statistical capacity becomes an important issue to be addressed for results management.

- (ii) **Pillar 2: Enhance ADB's results orientation.** New results-based operational tools are now in place. These include improved development effectiveness reporting; the new sector and thematic reports introduced under the enhanced PRS; and the results-based CPS and improved project design and monitoring frameworks, which will enable better assessment of results at the project level.²⁹ In addition, ADB has begun to focus on development effectiveness in country briefs to capture and report on ADB's contribution to country outcomes. To better link results analysis with decision making, preparatory work on an operational results management system was initiated in 2007. The regional departments have introduced initiatives to apply MfDR in operations. These include adoption of improved CPS and project quality filters, development of sector results profiles, establishment of MfDR focus groups, and use of results techniques in subregional planning. Since 2006, development effectiveness, including progress on MfDR in ADB, is reviewed by operations vice presidents with their department heads to provide leadership for departmental results orientation efforts. MfDR learning and development, as part of the effort to mainstream MfDR in ADB, has been intensified and more than 400 staff have participated since 2006. An MfDR training module for private sector operations was conducted. Issues that emerged for further examination include (i) need of a standardized framework across departments, (ii) better linkage of learning program to the quality improvement of results frameworks, (iii) continuation of colloquium with senior staff for enhanced results culture, and (iv) systematic assessment of quality of CPS results features.
- (iii) **Pillar 3: Maintain effective results partnerships.** ADB continues to be an active member of the emerging global partnerships on MfDR. The multilateral development banks' common performance assessment system, initiated by ADB in 2005, has been acknowledged as an important contribution to assessing the readiness of multilateral development banks for MfDR. In February 2007 ADB cosponsored the Third International Roundtable on MfDR and has actively shared knowledge and experiences with other multilateral development banks. It is now collaborating with the World Bank on the MfDR Learning and Development Program.

50. **ADB has improved operational policies, strategies, and processes to gain development effectiveness.** ADB has completed the four specific reform commitments on policies and strategies agreed during ADF IX negotiations. These relate to the PBA policy, governance and anticorruption policies, review of the private sector development strategy, and a public communications policy. ADB approved a revised PBA system in December 2004, and ensured its smooth and successful implementation. While the revised policy rationalized and considerably strengthened the PBA system, some issues have emerged that require attention. These are discussed fully in a separate discussion paper entitled "*Refining Performance-Based Allocation*," circulated for the ADF X Donors' meeting in Sydney in September 2007.

²⁹ OED is currently conducting a first phase evaluation of MfDR in ADB. Its findings are likely to be available by the end of 2007.

51. ADB adopted a second governance and anticorruption action plan in July 2006 based on the review of implementation of the governance and anticorruption policies.³⁰ A revised private sector development strategic framework³¹ was fully integrated into ADB's 2006 Medium-Term Strategy II.³² ADB also introduced a regional cooperation and integration strategy in July 2006 to support ADB's poverty reduction agenda through regional collective actions.³³ The public communications policy of 2005 has considerably improved the way ADB communicates with its various stakeholders.

52. ADB launched the Innovation and Efficiency Initiative in 2004 to enable it to respond better to its clients and reduce the costs of doing business with ADB. Actions have resulted in (i) improved processes for the results-based CPS with greater strategic clarity; (ii) updated guidelines and processes for procurement and consulting services to improve accountability and flexibility; (iii) more flexible cost-sharing arrangements and additional items eligible for ADB financing; and (iv) pilot-testing of new financing instruments and modalities. These changes and improvements have supported the large expansion of lending and cofinancing.

53. **Knowledge management is gradually mainstreamed across the institution.** ADB continues to implement its knowledge management framework approved in 2004. This has resulted in (i) integration of knowledge management activities into the staff performance evaluation process; (ii) establishment of knowledge management units in many of ADB's departments;³⁴ (iii) improved business processes and information technology solutions for better knowledge management; (iv) introduction of an eminent speaker's forum and a program to collect knowledge acquired by former ADB staff; (v) improved community of practice operation;³⁵ and (v) expanded knowledge sharing, learning, and dissemination through external relations and networking. Furthermore, ADB's knowledge departments—Economics and Research Department, the Regional and Sustainable Development Department (RSDD), and Office of Regional Economic Integration—and ADB Institute are coordinating much more closely in planning and implementing knowledge activities.

54. **ADB continues to align its organizational structure.** In late 2004, an independent assessment panel on ADB's reorganization made several recommendations to strengthen organizational capacity.³⁶ This led to the reform of RSDD in 2005, reducing its functions; setting up a new poverty unit, a knowledge management center, and a special initiatives group; and creating more meaningful quality assurance and quality control mechanisms. Streamlined communities of practice were established. The organizational restructuring of the department has helped better define its functions and role in the organization and perceptions about its functioning have improved.

55. In 2006, a further realignment of regional departments took effect (merging the Mekong and Southeast Asia departments and creating a new department for Central Asia) to enhance operational effectiveness, improve regional departments' country focus, and strengthen the synergy between country and regional operations. This realignment has positioned ADB to

³⁰ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

³¹ ADB. 2006. *Private Sector Development: A Revised Strategic Framework*. Manila.

³² ADB. 2006. *Medium-Term Strategy II 2006–2008*. Manila.

³³ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

³⁴ These departments include South Asia Department, East Asia Department, Pacific Department, Central and West Asia Department, OED, and Treasurer's Department.

³⁵ Currently, ADB has formed 11 community of practice committees (education, energy, environment, finance, gender and social development, governance, health, regional cooperation and integration, transport, and water and urban).

³⁶ ADB. 2005. *Organizational Adjustments for Enhanced Operational Effectiveness*. Manila.

respond better to emerging regional country groupings in Southeast and Central Asia and will enhance its operational effectiveness, particularly in the area of regional cooperation.

56. **ADB is implementing the human resources strategy.**³⁷ In 2004, ADB approved a human resource strategy, which seeks to establish a merit-based, transparent, effective human resource management system in support of ADB's vision and strategies to better serve its DMCs. The three mutually reinforcing objectives of the strategy (together with an action plan) are (i) enhance organizational capability; (ii) establish an effective performance management system; and (iii) strengthen leadership and accountability. While much progress has been made, ADB is working to address implementation issues. Highlights of changes/improvements implemented to address human resource-related issues include the following:

- (i) **Skill mix.** Efforts are continuing in the area of gathering information on the skills, experience, and expertise of ADB staff to provide better information in the assessment of skill gaps and alignment to organizational needs. Skill mix issues and skill gaps were addressed through consolidation measures such as realignment, sequestration, and implementation of the enhanced separation program. These measures provided an opportunity to take stock of available skills, redeploy skills based on work programs, balance workload among regional departments, and better align the skill mix with organizational needs and emerging new institutional priorities of the Medium-Term Strategy II.
- (ii) **PDP implementation.** A new PDP, based on an ADB-wide competency framework, allows for differentiation in levels of performance, based on an agreed work plan, completion of tasks/achievement of results, defined competencies appropriate for the job level, and better alignment of reward to performance. The new PDP process has produced important results for the organization: the introduction of a work plan culture and distinctive ratings for different levels of performance. It also resulted in a more interactive performance evaluation requiring supervisors to meet and discuss work plans and evaluations throughout the year. However, introduction of the process encountered some implementation issues. Based on consultations and staff feedback after the 2006 PDP, a number of substantive changes and refinements were made to improve the 2007 PDP instrument and process consistent with efforts to recognize and reward performance.
- (iii) **Performance bonus.** The introduction of a performance bonus (footnote 25) provided more direct and better linkage of reward to performance. Feedback received from professional staff in a recent survey on the bonus scheme showed that many accept the performance and/or team bonus as a means of rewarding excellence and teamwork, but would prefer that the design of the scheme be improved.
- (iv) **Learning and development.** A separate Learning and Development Unit was created within the Human Resources Division of the Budget, Personnel and Management Systems Department, with significantly increased budget allocation. The Unit offers demand-driven training courses through a curriculum-based, job family approach. In addition, targeted training programs for leadership and talent management were introduced.
- (v) **Transparency in promotions and recruitment.** Improvements were made to the promotion process to address transparency and improve efficiency.

³⁷ ADB. 2004. *Human Resources Strategy*. Manila.

Promotions to all local staff and professional staff levels 1 to 7 is done through vacancy posting (advertised internally and externally) based on job descriptions provided by the user departments. The use of selection panels ensures transparency in promotions and recruitment. For promotion, the selection panel includes an independent panelist. For recruitment, transparency in selection is ensured through the use of separate technical and employment panels that include the user department representative as well as an independent panelist. Decisions are now taken on the same day the recruitment panel convenes. Selection for professional staff positions at senior levels 8 to 10 are at the President's discretion, who proactively consults with his Management team and other senior staff. The procedures currently in place have significantly improved transparency and more acceptable results within the context of a multilateral institution.

- (vi) **Career development and progression.** Given the flat organizational structure of ADB, options other than promotion, such as enriching careers and creating opportunity for advancement, such as external training and development, job rotation, external assignments, secondments, and field office assignments, are being pursued.
- (vii) **Recruitment and retention challenges.** ADB continues to face challenges in recruiting and retaining staff because of competing demands for the same pool in the fast-growing Asian economies; the locational difficulties of being based in Manila; and more recently, the effect of the declining US dollar against all major currencies.

V. CONCLUSIONS

57. While the region continues to experience growth and income poverty reduction, it still faces major challenges in reducing poverty, particularly in relation to the nonincome MDGs. While the actual achievement of these goals depends on many factors beyond ADB efforts, ADB has made solid contributions to supporting the ADF country efforts to attain the MDGs. ADB can consolidate its support by reinforcing its concessional lending and grant operations and focusing them more sharply on MDG-relevant operational areas in line with ADB's comparative strengths.

58. ADB progress on improving the effectiveness of its operations—in all DMCs, including ADF countries—is encouraging. ADB is delivering its operational outcomes better, helped by improvements in quality and quantity of operational outputs, increased knowledge sharing, and deeper partnerships. Similarly, ADB has made considerable progress in increasing institutional effectiveness through reforms initiated since 2004. Efficiency indicators on human and budgetary resources also show progress. To ensure that the results of such reforms are fully realized, ADB will shift its attention to their effective implementation, capitalizing on progress made so far, and responding to issues that emerge during implementation.

59. Despite overall progress, a number of issues remain. To address these, ADB must intensify efforts to (i) address portfolio management weaknesses, (ii) implement quality-at-entry assurance systems for CPSs and projects; (iii) improve technical assistance management; (iv) implement the harmonization agenda; (v) promote a knowledge-sharing culture, (vi) mainstream the managing for development results agenda, and (vii) implement the human resource strategy.

**EFFECTIVENESS OF ASIAN DEVELOPMENT FUND OPERATIONS
RESULTS FRAMEWORK AND OVERALL ASSESSMENT**

Indicators ⁱ	Overall Assessment per Indicator Set ⁱⁱ
A. Country Outcomes: Poverty Reduction in Asia and the Pacific Region	
1a. Millennium Development Goals (MDG): income poverty	Improvement
1b. MDG: nonincome dimensions of poverty	Mixed results
1c. Other country outcomes (growth, infrastructure, business environment)	Mixed results
B. Operational Effectiveness	
B1. Outcomes: Improvements in ADB's Operational Outcomes	
2. Annual evaluation ratings of results-based country partnerships strategy (CPS)	No ratings available as results-based CPSs have yet to be evaluated.
3. Project performance evaluation report (PPER) and project completion report (PCR) ratings of loan projects	Improvement. Trend from 1990's shows improvement
4. Technical assistance performance evaluation reports ratings (TPER) and technical assistance completion (TCR) ratings of TA projects	Mixed Results. TCR average rating in 2004-2006 improved, however, TPER average rating for the same period has remained below benchmark.
5. Governance and public sector management assessment from Country Performance Assessments	Improvement.
6. Partnership survey results every 3 years	Benchmarked in 2006 through Perceptions Survey.
B2. Outputs/Activities: Improved Operational Quality, Finance, Knowledge and Partnerships	
7a. Number of results-based CPSs	Improvement. The target of making all CPSs results-based by 2006 has been achieved. Quality-at-entry rating of CPSs was benchmarked in 2006, hence no assessment in this report.
7b. Quality-at-entry rating of CPSs	
8a. Quality-at-entry rating of projects	Improvement. There has been improvement in portfolio ratings. Quality-at-entry rating of projects was benchmarked in 2006, hence no assessment in this report.
8b. Portfolio performance ratings	
9a. Level of approved loans	Marginal improvement.
9b. Level of private and public sector disbursements	Improvement.
10. Amount of co-financing mobilized	Improvement. Cofinancing generated has increased.
11a. Number of articles from ADB staff in refereed publications	Improvement. Improvements in all three areas.
11b. Number of hits on ADB and poverty websites	
11c. Annual most admired knowledge enterprise survey assessments of knowledge management activity	
12a. Proportion of projects with NGO or civil society participation	Improvement. Improvements in all three areas.
12b. Number of program based approaches supported	
12c. Proportion of joint CPS and country performance	

Indicators ⁱ	Overall Assessment per Indicator Set ⁱⁱ
review missions conducted annually	
C. Institutional Effectiveness: Inputs: Human and budgetary resources	
Human Resources	
13a. % share of budgeted professional staff and national officers in operations departments to total professional staff and national officers	Improvement. Data for indicators 13a, b, and c show improvement.
13b. % share if budgeted professional staff and national officers in resident missions	
13c. Hiring time (internal and external)	
13d. % of operational staff with mission experience:	Data not available for 13d; for 13e and 13f.
13e. % of staff completing learning & development option within a given cycle	
13f. Staff engagement index	
Budgetary Resources	
14a. Internal administrative expenses per \$1million of public and private sector loan approval	Improvement. Both indicators have shown improvement.
14b. Internal administrative expenses per \$1million of loan disbursements	

ⁱ These indicators have been largely harmonized with the International Development Association (IDA)-14 Tier I and II monitoring indicators. Tier I indicators which measure the “big picture” progress are captured under the MDG and other growth indicators used under 1a and 1b. Tier II indicators which cover intermediate outcomes and outputs which relate to actual performance of programs are captured by indicator sets 2-12.

ⁱⁱ Assessment categories and criteria for assessing each indicator set are as follows: (i) improvement—if all or the majority of indicators assessed have shown improvement; (ii) mixed results—if one indicator shows improvement and the other regression (out of a set of two indicators); (iii) no change—if the indicator(s) have neither progressed nor regressed; (iv) regression—if the majority or all of the indicators have regressed. No assessments were made for indicator sets where majority of the indicators have been benchmarked in the previous years or where data were not available.