

The logo for the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font on a black square background.

Asian Development Bank

**Board of Directors**

Development Effectiveness Committee

Annual Report

# Annual Report of the Development Effectiveness Committee

October 2005

**ANNUAL REPORT OF THE DEVELOPMENT EFFECTIVENESS COMMITTEE  
TO THE BOARD OF DIRECTORS**

September 2005

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## EXECUTIVE SUMMARY

To ensure the independence of ADB's operations evaluation process, on 1 January 2004 the Operations Evaluation Department (OED) began reporting directly to the Board of Directors through its Development Effectiveness Committee (DEC), instead of to the President. This introduced a new structure of roles in ADB's learning and change management process:

- OED's role is to independently distill lessons and make recommendations for desirable improvements.
- Management's role is to decide which recommendations are acceptable and realistic, and should be implemented.
- The DEC's role is to guide Management on the priorities for change and improvement.

In 2004, OED, Management, and the DEC collaborated to establish a new approval, review and disclosure process for OED reports that observed and realized the objectives of an independent evaluation process. All evaluation reports, Management's responses to them, and the DEC Chairperson's summaries of DEC discussions of major OED reports are publicly disclosed.

The DEC's evolving key areas of concern are:

- How are the evaluation recommendations that Management decides to accept turned into action so that targeted changes for improvement happen?
- How are actions and their impacts monitored?
- How can OED play a more strategic role? Specifically, how can independent evaluations by OED have increased influence on ADB's long term strategic thinking?
- How can the DEC play a more strategic role? How will DEC increase the value it adds to ADB's learning process?

While the number of DEC meetings has remained at around eight per year since the committee was established in 2001, the profile of the meeting agenda has gradually shifted from the project level to sector, country, and policy levels.

The DEC finds it can most efficiently fulfill its terms of reference by reporting to the Board on the observations, conclusions, and recommendations from its detailed reviews of the three annual reports prepared by OED. In addition, this year's DEC annual report (i) includes a theme section that focuses on the institutional process of taking action on lessons learned from independent evaluations, and (ii) becomes the vehicle for the DEC to recommend Board approval of the proposed OED work program for the coming year (2006).

In reviewing the annual report on status of implementation of the DEC's past recommendations, the committee considers that actions taken by ADB on five of 13 previous recommendations remain unsatisfactory or not yet satisfactory.

In reviewing OED's *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004*, the DEC recognizes key strategic issues facing ADB's portfolio that are not new but are, for the first time, grounded on an independent and empirical evaluation of portfolio performance. These issues concern the adequacy of the tools and skills (including management skills) that ADB has to meet the needs of its wide range of clients. The DEC agrees with Management's view that the OED recommendations are not

sufficient to deal with the portfolio problems diagnosed in the annual report. Accordingly, on an exceptional basis, the DEC calls the attention of the Board to the *full* OED report and expects Management to take other necessary actions on major issues identified, especially those of a strategic nature that *only* Management can decide.

In reviewing OED's *2005 Annual Evaluation Review*, which was initially circulated to the Board under the title "Annual Review of Development Results", the DEC commends the shift initiated by OED from an annual review of evaluation activities toward an annual evaluation of development effectiveness. To be achieved, this requires formulation of a logical framework for the report by OED, with the guidance and endorsement of the DEC and the inputs of Management and other report stakeholders, on what would be of greatest use to ADB operations. At the same time, the DEC considers that tracking how lessons from independent evaluations are being incorporated in new operations remains an important part of the process.

Three significant, positive trends are affirmed by this year's annual evaluation review:

- by the ratings, the quality of public sector projects approved since 1987 has improved consistently;
- following initiation of an action plan by Management to improve project design and monitoring frameworks, their quality increased dramatically in 2004 (but not for TA); and
- public sector project completion reports have become more reliable as self-evaluation mechanisms (but not for TA).

What needs to be done is to determine the drivers of the positive trend in average project success rate and test the data more, so that there is a clearer understanding of what has gone well and what can be done better. The OED report emphasizes sector as an important determinant of project performance, with infrastructure projects, particularly in transport and energy, having high success ratings but projects in the agriculture sector and for lines of credit to government-owned development finance institutions (DFIs) having low success ratings. The working principle of selectivity and focus should lead ADB to operate in a fewer sectors in a DMC but *not* in a fewer DMCs.

In its assessment of the effectiveness of the current process in ADB for learning from evaluations, the DEC acknowledges (i) OED's self-assessment of the quality of recommendations in its reports, which concludes that quality has improved but more needs to be done on ensuring the recommendations are implementable; and (ii) OED's assessment of the quality of Management responses to evaluation reports in the initial year of the new process, which concludes that a learning process has taken place, quality has improved, but further improvement is needed. The DEC believes that improvements in the overall system could be achieved through further efforts at partnership among core stakeholders, including the DEC, and suggests certain steps for that process. The DEC reports that certain actions on such steps are already being undertaken or planned by ADB. The weakest link is in monitoring and reporting on actions taken on evaluation recommendations, because the monitoring and reporting is done by OED while accountability is with Management.

The DEC has also looked at its own responses to major evaluations; an appendix summarizes the highlights and assesses the contributions of DEC discussions of major OED reports approved in 2004, as captured in the Chairperson's summaries of discussions. The DEC considers that it can enhance its contribution to the lessons learning and implementation process by:

- (i) focusing its discussions on major OED reports;
- (ii) ensuring that DEC discussions of the related evaluations precede and feed into full Board discussions of policies and strategies;
- (iii) ensuring, through the interventions of DEC members at Board discussions, that the full Board actively uses lessons from evaluations in its deliberations;
- (iv) if called for, exercising the discretion to request the Chairman of the Board to include a major evaluation issue in the agenda of a Board meeting; and
- (v) calling on Management for actions that are beyond the scope or competence of OED to propose.

The DEC is satisfied that ADB's operations evaluation activities in 2004 were adequate and efficient, and so reports to the Board.

The DEC reviewed and provided its inputs to OED's work program framework for 2006–2008. At OED's initiative and with DEC encouragement, the proposed program benefits from an unprecedented extent of consultation with and inputs from not only current DEC members but also past DEC members, the President, the Vice-Presidents, as well as operations departments. The DEC supports the gradual shift in ADB's operations evaluation program towards country and sector level assistance program evaluations as well as thematic and special evaluations, while maintaining a required minimum of individual operations evaluations to continue the accumulation of lessons learned on the ground.

### **Recommendations for ADB Consideration**

The DEC recommends, through the Board to ADB, that:

- (i) a system be put in place to monitor actions on DEC recommendations;
- (ii) Management propose a comprehensive action plan, to be presented to the full Board, to address the key strategic issues analyzed in *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004*;
- (iii) the subsection of the annual evaluation review that reports on follow-up actions on OED recommendations be elevated to a major section in the next annual evaluation review, and a system be established for monitoring the cumulative progress of actions on OED recommendations;
- (iv) implementation of the proposal by SPD to report periodically to the DEC, on behalf of Management, on the progress of actions on the MfDR agenda, subject to agreement with SPD on the nature and frequency of such reporting.

### **Recommendations for Board Approval**

The DEC recommends that the Board approve:

- (i) the OED Work Program for 2006 as presented in Appendix 5 of this report; and
- (ii) public disclosure of this DEC annual report after its consideration by the Board.

## I. INTRODUCTION

1. The Development Effectiveness Committee (DEC) of the Board of Directors was established on 1 January 2001 to assist the Board in carrying out its responsibility to ensure that the programs and operations of the Asian Development Bank (ADB) achieve development effectiveness. For purposes of the DEC's work, "development effectiveness" is considered to be achieved if (i) ADB's programs and operations in furtherance of its policy and strategy objectives result in the desired outcomes, and (ii) these programs and operations make efficient use of ADB's available resources. Such development effectiveness is continuously assessed through ADB's operations evaluation program. The DEC's current terms of reference are in Appendix 1.

### A. Independence of OED: the Initial Year

2. To ensure the independence of ADB's operations evaluation process, on 1 January 2004 the Operations Evaluation Department (OED) began reporting directly to the Board through the DEC, instead of to the President.<sup>1</sup> A new responsibility and accountability structure is being implemented in ADB for operations evaluation, and for taking action on lessons from evaluation. On behalf of the Board, the DEC: (i) engages Management in responding to evaluation findings; and (ii) oversees, rather than suggests, OED's work program. OED's responsibility has increased from submitting evaluation reports to Management for approval, to finalizing and disclosing evaluations with full responsibility for their contents and recommendations, and the quality and independence of these. Management's responsibility has changed from approver of evaluations to active respondent and decision maker on what actions ADB can or should take on recommendations from independent evaluations.

3. In 2004, OED, Management, and the DEC collaborated to establish a new approval, review and disclosure process for OED reports that observed and realized the objectives of an independent OED evaluation process. On behalf of the Board of Directors, the DEC has considered OED's major reports together with Management's responses and any further comments by OED. All evaluation reports, Management's responses to them, and the DEC Chairperson's summaries of DEC discussions of major reports have been publicly disclosed so that all ADB stakeholders are informed of the issues identified and the recommendations made, as well as the views, responses, and proposed actions on these within ADB.

4. ADB's new public communications policy, approved by the Board in April 2005 and which became effective for OED on 15 July 2005, reaffirmed the above disclosure procedure and further tightened the timing requirements. The primary change is that now, since an OED evaluation report is final upon approval by the Director General, OED, it is to be made publicly available immediately upon circulation to Management and the Board, without waiting for the Management response or a DEC discussion of the report. Management's response and the Chairperson's summary of a DEC discussion are later publicly disclosed as available.

5. As stated in last year's DEC report to the Board, in its new role of ensuring an enabling ADB environment for OED to exercise full independence in its evaluations, the DEC finds that it needs to navigate through heretofore uncharted interaction processes between an independent department, the Management, and the Board. Adjustments not only in business process but

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<sup>1</sup> ADB. 2003. *Enhancing the Independence and Effectiveness of the Operations Evaluation Department* (R263-03). Manila.

also in resource allocation and organization culture may be required. In this context, the DEC again encourages all parties to interact constructively, bound by the common objective of using independent evaluation as a means to the continuous improvement of ADB's development effectiveness.

6. As further discussed later in this report, the DEC's evolving key areas of concern are:
- (i) How are the evaluation recommendations that Management decides to accept turned into action so that targeted changes for improvement happen?
  - (ii) How are actions and their impacts monitored?
  - (iii) How can OED play a more strategic role? Specifically, how can independent evaluations by OED have increased influence on ADB's long term strategic thinking?
  - (iv) How can the DEC play a more strategic role? How will DEC increase the value it adds to ADB's learning process?

## **B. Composition of the DEC**

7. During the period covered by this annual report, 25 August 2004 to 10 August 2005, the DEC was composed of the following members:

25 August 2004 to 30 June 2005 (end of Committee appointment term that started on 1 July 2003):

Jusuf Anwar (Chairperson until 15 October 2004)

Emile Gauvreau

Agus Haryanto (Member starting 16 October 2004, Chairperson starting 1 February 2005))

Masaki Omura

Ashok Saikia (Chairperson from 16 October 2004 to 31 January 2005)

Troy Wray

ShaolinYang (Member until 31 January 2005)

Xiaosong Zheng (Member starting 1 February 2005)

1 July 2005 to 10 August 2005 (appointment term ending 30 June 2007):

Agus Haryanto, Chairperson

Emile Gauvreau

Richard Moore

David Taylor

Nima Wangdi

Xiaosong Zheng

## **C. Agenda of DEC Meetings, 25 August 2004 to 10 August 2005**

8. The DEC meetings held in the period covered by this annual report included a selection of evaluations that the committee considered to be of high priority in the context of ADB's medium term agenda. A complete listing is given in Appendix 2. Only two individual project performance audit reports (PPARs) were discussed, of which one was on Nam Leuk Hydropower Project in Lao People's Democratic Republic. The DEC concentrated its meeting agenda on two country assistance program evaluations (CAPEs), one country-level evaluation of assistance in capacity development, and five special evaluations addressing ADB-wide

issues including project cost estimates, participatory approaches in rural development, and role of project implementation units.

9. While the number of DEC meetings has remained at around eight per year since the committee was established in 2001, the profile of the meeting agenda has gradually shifted from the project level to sector, country, and policy levels. The trend, which has been consciously guided by the DEC across the years, is seen in the table below.

**Development Effectiveness Committee (DEC)  
Number and Agenda of Meetings, 2001–2005**

<u>Number</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	8	7	8	8	8
<u>Agenda 1</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
PPAR/TPAR	4	6	5	4	0
SES/IES	3	3	3	4	4
CAPE/SAPE	0	1	2	4	6
AR	2	2	2	2	2
Other	5	2	3	4	8
Total	14	14	15	18	20

<sup>1</sup> AR = annual report, CAPE = country assistance program evaluation, IES = impact evaluation study, PPAR = project/program performance audit report, SAPE = sector assistance program evaluation, SES = special evaluation study, TPAR = technical assistance performance audit report.

#### **D. The DEC's Annual Report**

10. By its current terms of reference, the DEC is expected to review ADB's operations evaluation program achievement in the past working year in order to be able to report to the Board its assessment of the adequacy and efficiency of that program. To ensure that evaluation lessons learned have a "real time" impact on ongoing operations, the DEC is also responsible for reviewing the annual performance of loan and technical assistance portfolios under supervision. Following last year's practice, the DEC finds it can most efficiently fulfill its responsibilities by reporting to the Board on the observations, conclusions, and recommendations from detailed reviews of three annual summary reports prepared by OED:

- (i) Status of Implementation of Key Recommendations of the Development Effectiveness Committee in 2002–2004 (Appendix 3);
- (ii) *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004* (IN.173-05, Final and Corrigendum circulated to the Board on 15 September and 10 October 2005), which synthesizes and evaluates overall performance of the portfolio under implementation based on the cumulative data in the quarterly statistical updates circulated to the DEC; and
- (iii) *2005 Annual Evaluation Review* (IN.231-05, circulated to the Board on 5 September 2005), which includes a comprehensive summary of the key findings of 2004 evaluation reports.

11. In addition, this year's annual report
- (iv) includes a theme section that focuses on the institutional process of taking action on lessons learned from independent evaluations; and
  - (iv) becomes the vehicle for the DEC to endorse Board approval of the proposed OED work program for the coming year (2006), which the DEC has reviewed and given its independent suggestions on before the proposal was finalized. Under the policy establishing the independence of OED, the DEC and the Board have this new responsibility.

12. **Recommendation: Public Disclosure of DEC's Annual Report.** ADB's new public communication policy specifies that ADB shall make a report of a Board committee to the full Board publicly available if the committee so recommends and the Board approves. In its meeting of 10 August 2005, the DEC decided to recommend for Board approval the public disclosure of its annual report to the Board after its consideration by the Board.

## II. STATUS OF IMPLEMENTATION OF KEY RECOMMENDATIONS OF THE COMMITTEE IN 2002–2004

13. In 2003, the DEC asked OED to prepare an annual status report to monitor actions implemented by Management on the committee's recommendations in its annual reports to the Board since 2002, on a cumulative basis. This continues to be considered critical because, unless the DEC's recommendations are acted upon in a timely and effective manner, their value will diminish. Also, since the committee's membership changes every two years, often more frequently, this status report provides a mechanism for continuous monitoring of, and accountability for, actions being taken by ADB on DEC recommendations as endorsed by the full Board. Although the DEC may at times make recommendations based on its independent deliberation of key development effectiveness issues facing ADB, including issues regarding the system of evaluation and feedback, the majority of DEC recommendations are based on consideration of major OED reports that the DEC selects for its meeting agenda.

14. Appendix 3 provides detailed explanation of the status of (i) a recommendation made by the DEC in its 2002 annual report whose implementation had remained unsatisfactory when last reviewed in 2004, (ii) three recommendations made in the its 2003 annual report on which actions remained unsatisfactory in 2004, and (iii) 13 new recommendations made in its 2004 annual report.

15. The issue of continued long delays in loan effectiveness, at which the recommendation carried over from 2002, to introduce project-readiness good practices, was addressed (Appendix 3, section A), received further attention in a renewed recommendation in 2004, in which the relevance of the DEC's 2002 recommendation was strengthened. The three 2003 recommendations on which actions remained unsatisfactory as of 2004 (Appendix 3, section B, on negative net resource transfers, low achievement rate of TA completion reports, and slow pace of delegation to resident missions) were similarly recast in enlarged recommendations in 2004. Thus, DEC recommendations from 2002 to 2004 were consolidated into the 13 recommendations in the DEC's annual report of 2004.

16. Of the 13 summary recommendations put forward by the DEC in its 2004 annual report, nine were based on the DEC's review of the *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2003* (Appendix 3, section C). Actions observed since then on these nine DEC recommendations are reported in this year's *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004*. Based on its review of the latter report (section III below), the DEC considers that actions taken on *five* of the nine recommendations remain *unsatisfactory* or *not yet satisfactory* as of August 2005:

- (i) pilot-testing of reporting on the production of outputs against projections in selected sectors;
- (ii) making project readiness criteria mandatory (rooted in the DEC recommendation initially made in 2002);
- (iii) assessing development effectiveness in private sector operations;
- (iv) building flexibility in staff allocation so that project supervision, particularly of projects at risk, receives adequate staff attention;
- (v) using critical path analysis in project preparation and implementation.

Actions on these five past recommendations will be reassessed by the DEC in 2006 when it reviews the next annual report on portfolio performance.

17. Actions on the remaining four DEC recommendations made in 2004, which addressed issues raised in the *Annual Review of Evaluation Activities in 2003* (Appendix 3, section D), are not reported in this year's version of that OED annual report, *2005 Annual Evaluation Review*, but have been independently canvassed. Based on the feedback on actions taken, the DEC considers that implementation of all four recommendations has been *satisfactory* as of August 2005:

- (i) a gradual shift in ADB's operations evaluation program towards country and sector level assistance program evaluations as well as thematic and special evaluations, while maintaining a required minimum of individual operation evaluations to continue the accumulation of lessons learned on the ground;
- (ii) adopting a thematic focus for each future year's annual evaluation review;
- (iii) further analysis of the reasons behind the positive trend that a declining success rate for projects completed since 1974 was reversed in 1989 and has steadily increased since then, so that there is a clearer understanding of what has gone well and what can be done better; and
- (iv) making the follow-up actions recommended in evaluation reports more specific and time bound so that responsiveness by borrowers and ADB departments to the follow-up actions recommended could further improve.

18. **Recommendation: System to Monitor Actions on DEC Recommendations.** Referring particularly to the past DEC recommendations on which actions to date remain unsatisfactory or not yet satisfactory (paragraph 16), the committee considers that there is a systemic weakness in the process by which actions on DEC recommendations that are endorsed by the full Board to Management are planned, monitored, and implemented by ADB. This weakness needs to be addressed by Management with high priority, with the technical support of OED.

### III. ANNUAL REPORT ON LOAN AND TECHNICAL ASSISTANCE PORTFOLIO PERFORMANCE FOR THE YEAR ENDING 31 DECEMBER 2004

19. In compliance with its terms of reference, the DEC met on 5 August 2005 to discuss the *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004* (the AR), which was circulated to the Board on 11 July 2005 (Document IN.173-05). On behalf of the Board, the DEC has reviewed the annual evaluation of ADB's ongoing public sector, technical assistance, and private sector portfolios under implementation, their structures, profiles, performance, statistically significant trends, implications, and issues. This is the fourth year OED has prepared the AR. Under the ADB reorganization of 2002, the responsibility for AR preparation was transferred from the Central Operations Services Office (COSO) to OED. While prepared by OED, however, the report relies on the statistical information regularly gathered and analyzed by COSO and is the culmination of quarterly portfolio updates provided by COSO to the DEC during the performance year. In this context, the DEC wonders if stronger analytical collaboration between COSO and OED is possible without compromising the independence of OED's conclusions.

20. The purpose in shifting the responsibility for AR preparation to OED was to deliver on the Medium-Term Strategy requirement that OED undertake regular evaluation reviews of the portfolio undergoing implementation by 2005 to support more timely assessment of development impact and country performance. In this light, in reviewing the AR for the period ending 31 December 2002, the DEC had recommended that, to add value to the "real time" learning process, the report needed to be more evaluative, delve beyond the statistics, and come up with the reasons behind annual trends in portfolio performance indicators. The DEC found that last year's AR went a significant way towards that goal. The DEC finds that this year's AR raises the bar higher, becoming a new mechanism for independently establishing key strategic issues facing ADB operations.

21. **Key Portfolio Issues Defined.** The key strategic issues raised in this year's AR are not new. But it is the first time they are grounded on an independent and empirical evaluation of the current portfolio performance. As argued in the AR, many of the big strategic questions facing ADB concern the adequacy of the tools and skills (including management skills) that the Bank has to meet the needs of its wide range of clients. These include:

- stagnation in the volume of OCR loan approvals; prepayments of OCR loans by a few large borrowers, of older and relatively expensive OCR loans, resulting in negative net resource transfers from ADB to its DMCs; 43% drop in OCR income during 2001–2004
- persistent delays in project implementation
- lack of flexibility, responsiveness and effectiveness of ADB's current systems for planning, implementing, managing and monitoring TA, especially for capacity development and provision of policy advice
- accuracy and quality of project and TA completion reports
- steady decline in OCR project loan disbursements
- persistent difficulty that many developing member countries (DMCs) have in meeting conditions for program loan tranche releases
- heavy concentration of ADB lending in only eight DMCs
- difficulty in responding to the development challenges of small, vulnerable, and/or weakly performing DMCs whose primary needs are not for loan funded projects or programs

22. **OED Recommendations.** OED's major recommendations are to:

- enhance the efficiency of project implementation by taking action on the issue of ADB's loss of technical skills in the RDs, ensuring adequate staff allocation for project supervision in the budget, delegating more projects to RMs consistent with staffing capacity, and ensuring that each RM has a sector specialist for each sector in which ADB is substantially engaged
- improve sector selectivity and focus in CSPs
- improve management of the TA portfolio by considering stricter limits on the number of new TA approvals, ensuring complete and accurate information in TA performance reports, and improving the analytical content of TA completion reports and their focus on development results
- improve planning and timing of Board consideration of new loan proposals
- strengthen project monitoring and evaluation by promoting use of the project performance report (PPR) as the primary tool for identifying problem projects and projects "at risk".

23. Committee members consider that the AR gives relatively too much prominence to the bunching issue. Of more strategic importance are the issues involving continued relevance of OCR lending, and of more operational importance are the issues about adequacy of attention to project implementation. On the latter, it is not merely the allocation of enough staff resources to project administration, but also whether the staff skills and experience required for effective project administration are presently available in the regional departments.

24. **Allocation of Staff Resources to Portfolio Administration.** In this context, the DEC is alarmed by the finding that despite a 30% increase in the ratio of total number of professional staff to total number of active projects from 1995 to 2004, there was an apparent decrease in professional staff time allocated to review missions. The question of how the 34% increase in the number of professional staff between 1995 and 2005 (an increase of 218 positions) has in fact been allocated in ADB's work program—along with a significant increase in consultant-years—is of concern to the DEC because, by its terms of reference (Appendix 1), a criterion by which "development effectiveness" is to be measured is whether ADB's programs and activities have made efficient use of ADB's available resources. *The DEC will pursue this question further in the coming year, in close consultation with the Budget Review Committee.*

25. **Management of TA.** As far as ADB's technical assistance modality, the problem goes further than the concern about the quality of TA completion reports. It is in overall management of the TA program. The DEC agrees that, as a first step, the number of new TA approvals should be reduced, with the underlying principle being that no TA should be "supply driven". The resources freed up processing more TA should then be directed to more effective managing for development results in TA implementation. Beyond that initial step, however, is the need to rethink the whole system of TA provision. The DEC cannot overemphasize the urgent need to improve the quality of ADB's technical assistance.

26. **Areas for Consideration in Future Annual Reports.** Some DEC members think the AR should have given a more balanced picture of ADB portfolio performance, reporting the positive achievements as well as the issues, instead of focusing on the latter. Others think the "sobering tone" of the AR is called for. Some members consider that one of the solutions put forward in the report—reducing project complexity—is not the right message to send; ADB should improve project design but not simply avoid complex projects. Others point out that more

problem areas influence portfolio performance than those specified in the AR, such as corruption; the performance of consultants, contractors, and executing agencies; oversight issues; and cross-cutting issues including resettlement and environment. Most if not all members are of the view that there should be more balance in the assessments of the private and public sector portfolios in the annual report

27. **DEC Consensus.** All DEC members agree that the strategic questions raised by the AR are of fundamental importance to ADB's continued relevance to the region and that the significance of the issues are enhanced by the independence of the present analysis. The DEC agrees with Management's view in its response that "while some of the OED recommendations are quite sensible, taken together they are not sufficient to deal with the portfolio problems diagnosed in the (AR)". Accordingly, instead of highlighting selected key issues that, following past practice, the DEC might focus the Board's attention on, this year—on an exceptional basis—the DEC calls the attention of the Board to the *full report*.

28. **Recommendation: Action Plan by Management.** In this exceptional context, the DEC's primary recommendation is that Management propose a comprehensive action plan to address the key strategic issues analyzed in the AR. The purpose of such an action plan would be to specify how ADB will move forward to address the major portfolio issues raised by the AR. It is expected that the action plan for improving portfolio performance will incorporate the various initiatives already being undertaken by ADB toward its Reform Agenda.

29. **Board Interaction with Management.** In its discussion of the AR, the DEC wished that a member of Management was present to provide an initial response by Management to the committee's recommendation for an action plan. In the absence of a member of Management, the DEC Chairperson was asked by the committee to meet with the President after the DEC meeting to explain the DEC's recommendation. Such a meeting took place, at which the President agreed to formulate the proposed action plan to improve ADB's loan and TA portfolio performance. It was also agreed that the action plan would be presented to the full Board at the same Board meeting in which this DEC annual report is to be considered by the Board.

#### IV. 2005 ANNUAL EVALUATION REVIEW

30. In compliance with its terms of reference, the DEC met on 10 August 2005 to discuss OED's annual review of evaluation activities, which this year was initially re-entitled "Annual Review of Development Results", as circulated to the Board on 8 July 2005 (Document IN.169-05). The third of OED's annual reports, the annual review's purpose is to synthesize ADB's post-evaluation results and assess the quality of the evaluation system through the latest completed fiscal year, and, starting two years ago, to track long term trends in ADB-assisted project success rates. It consolidates the information based on which, in addition to the other OED annual report on ongoing portfolio performance (section III above), the DEC can assess the adequacy and efficiency of ADB's evaluation program.

31. **Review of Purpose of the Annual Review.** The initial part of the DEC's discussion focused on the new title given to what had previously been called the Annual Review of Evaluation Activities (AREA). OED explained that the intention was to increase analytical depth, draw out lessons from a broader body of evaluation work, and start reporting on ADB's development results; hence the proposed change in title to Annual Review of Development Results. The DEC appreciates the intention behind the proposed change in title but considers that, with its present structure and content, it would be premature to call the report an annual

review of development results and, when publicly disclosed, it should carry a more appropriate title. This point was also made in Management's response to the report. After the DEC discussion, the report has been made publicly available as the *2005 Annual Evaluation Review*.

32. The question of its title aside, the report is in the right track towards expectations previously set by the DEC for increase in evaluative content and going beyond traditional statistical reporting. Several members think the annual review can and should go further in terms of interrogating and making sense of the data, and identifying issues for future inquiry. In this context, more might have been done in the paper of the research results on development effectiveness that were presented in an appendix. The next stage of increasing the usefulness of the report would be to go beyond in depth analysis of project ratings to in depth analysis of *why* projects succeeded when they did. Those lessons would be of the greatest use to operations.

33. The discussion of the report's title is a substantive one for two reasons. First, if the annual report is to become an effective tool for improving development results (not just reporting on these), the Managing for Development Results (MfDR) agenda should provide the framework for evaluating ADB's and DMCs' efforts. In this context, the Strategy and Policy Department (SPD) has proposed reporting periodically to the DEC, on behalf of Management, on the progress of actions on the MfDR agenda. The DEC welcomes SPD's proposal and will further discuss with SPD the nature and frequency of such reporting that would best support the DEC's objectives and agenda. Second, the DEC's terms of reference (Appendix 1) specifies that the committee is responsible for reviewing, on behalf of the Board, the "annual report on evaluation activities". If the nature of the report gradually changes to an annual review of development results—or, as some DEC members suggest, preferably an annual review of development *effectiveness*—should the DEC's primary responsibility of "satisfying itself that ADB's operations evaluation activities are adequate and efficient" correspondingly change?

34. To summarize, the DEC commends the shift initiated by OED from an annual review of evaluation activities toward an annual evaluation of development results, or development effectiveness. However, this is simpler said than done. It will require formulation of a logical framework for the report by OED, with the guidance and endorsement of the DEC and the inputs of Management and other report stakeholders on what would be of greatest use to ADB operations. It may also require a revision in the DEC's terms of reference. It represents a paradigm shift that needs to be carefully considered in the coming year.

35. **The Good News.** Three significant, positive trends are affirmed by this year's annual review:

- by the ratings, the quality of public sector projects approved since 1987 has improved consistently;
- following initiation of an action plan by Management to improve project design and monitoring frameworks, the quality of the frameworks increased dramatically in 2004 (but not for TA); and
- public sector project completion reports have become more reliable as self-evaluation mechanisms (but not for TA).

36. What needs to be done is to determine the drivers of the positive trend in average project success rate, and test the data more, so that there is a clearer understanding of what has gone well and what can be done better. The DEC considers this evaluation of primary

importance to ADB's future, particularly in the light of the issues brought out in the annual report of portfolio performance (section III).

37. **Sector Performance and Selectivity.** The OED report emphasizes sector as an important determinant of project performance, with infrastructure projects, particularly in transport and energy, having high success ratings but projects in the agriculture sector and for lines of credit to government-owned development finance institutions (DFIs) having low success ratings. Though it acknowledges that past project performance is not the only factor to be considered in determining the sectors in which ADB should be involved in a particular DMC, the report's sector related recommendations seem to place the burden of argument on the side of not exiting from sectors that have been diagnosed as performing poorly; such presumption is stated very clearly in the case of government-owned DFIs. The DEC cautions that: (i) sector performance analysis is more meaningful in a given country context rather than across DMCs; (ii) poor project performance in a given sector in a given country could mean that ADB must improve its operations in that key result area rather than considering an exit; and (iii) sector selection is, in the end, not a function of factors such as performance but a strategic decision made by Management through the CSP process and in the context of specific country circumstances, and for which Management is to be held accountable. The working principle of selectivity and focus should lead ADB to operate in a fewer sectors in a DMC but not in a fewer DMCs.

38. **Economic Internal Rate of Return (EIRR).** The annual review reports that three quarters of EIRRs turn out to be lower than expected because ADB's forecasts of benefits are consistently overoptimistic and project risks are not being properly identified and mitigated. The DEC agrees that the quality of EIRR should be improved, as a matter of due diligence for efficient use of ADB resources and as a matter of managing for development results. The DEC also agrees that use of sensitivity analysis is crucial to judging the feasibility of project proposals.

39. **Follow-up Actions on OED Recommendations.** The DEC considers that paragraphs 168–182 of the report, assessing the follow-up actions by ADB on the recommendations of OED reports, should not just be a subsection to a section (V) assessing the quality of performance of various components of ADB's evaluation system in 2004, but a major section by itself. This is what the primary purpose of independent evaluation is all about, feeding lessons for improvement into operations, and tracking how those lessons are being incorporated. It is more than quality control of the feedback system, it is the core of ADB's knowledge management process. Therefore, this critical section should go beyond statistical reporting into recommendations for further action, as appropriate; in particular, on specific recommendations that Management has found acceptable but on which no progress can be reported.

40. **Recommendations: First,** the DEC recommends that: (i) the subsection reporting on follow-up actions on OED recommendations be elevated to a major section in the next annual review; and (ii) Management, with technical support from OED, establish a system for monitoring the cumulative progress of actions on OED recommendations. **Second,** the DEC recommends implementation of the proposal by SPD to report periodically to the DEC, on behalf of Management, on the progress of actions on the MfDR agenda, subject to agreement with SPD on the nature and frequency of such reporting. This will enable the DEC, gradually, to report to the Board both on ADB's development effectiveness and on the steps ADB and the DMCs are taking to better manage for results.

## V. IMPROVING ADB'S PROCESS OF TAKING ACTION ON LESSONS FROM INDEPENDENT EVALUATION

### A. The Institutional Learning and Change Management Process

41. **Roles.** The organizational independence of OED has introduced a new framework and structure of roles in the learning and change management process.

- OED's role is to independently distill lessons and make recommendations for desirable improvements.
- Management's role is to decide which recommendations are acceptable and realistic, and should be implemented.
- The DEC's role is to guide Management on the priorities for change and improvement.

42. **Current Process.** First, after completing the normal interdepartmental review process and consultation with member governments involved in the evaluation, OED reports are finalized by OED independently of Management, circulated to Management and the Board, and publicly disclosed. Second, Management's responses to the evaluation recommendations are invited. Third, on behalf of the Board of Directors, the DEC considers OED's major reports together with Management's responses (if any) and provides its independent views, endorsements, and suggested priorities for Management action. Fourth, Management's response and the DEC Chairperson's summary of the DEC's discussion (if there is one) are also publicly disclosed. Fifth, OED reports annually on whether or not actions have been taken on evaluation recommendations.

43. **Effectiveness of the Current Process.** Effectiveness in achieving desired changes in ADB operations and policies as the result of applying selected evaluation recommendations depends on:

- (i) quality of OED recommendations;
- (ii) quality of Management responses to, and decisions on, the recommendations;
- (iii) quality of DEC guidance, including what Management should prioritize;
- (iv) quality of staff implementation of Management's decisions for change; and
- (v) an efficient monitoring system by Management, with specified accountability for action or inaction.

44. Quality in the first three stages, i.e. the OED-Board-Management engagement process, may generally be assessed according to how specific, monitorable, actionable, relevant, practical, and time-bound the respective OED recommendation, Management decision, and DEC guidance are. Quality of implementation is assessed on effectiveness and timeliness of the actions to achieve desired change. Efficiency of the monitoring system is assessed on timely information that identifies proposed actions that need management follow up.

45. In its 2005 Annual Evaluation Review (see section IV above), OED does a self-assessment of the quality of recommendations in OED reports through 2003 and concludes that the quality has been improving. (The DEC reserves its own judgment until the quality of OED recommendations in 2004, the initial year of OED independence, has been analyzed.) OED

analyzed a total of 105 follow-up actions that were recommended in the 25 evaluation reports of 2003, of which 23 were project or TA specific evaluations and two were broad evaluations. In project or TA specific recommendations, the quality had improved mainly in specificity of timeframes. In the broad evaluations, quality improvement resided mainly in specifying which department in ADB should take the action. (In reference to the latter, however, the DEC considers that final assignment of departmental responsibility should be Management's decision.) The self-review by OED concludes that in some cases OED may need to do more to ensure that actions recommended are implementable and the conditions necessary to implement them are in place; in broad evaluations, follow-up recommendations must be separated from general lessons.

46. The 2005 Annual Evaluation Review has also assessed the quality of Management responses to evaluation reports during the initial year (2004) of the newly established responsibility structure. The assessment covered Management responses to 31 OED reports approved under the new independent structure in 2004 using two criteria: (i) *value addition*, and (ii) *monitorability*. A Management response is considered to add value to the learning process if it takes lessons and recommendations 'a step ahead'. To do so, a response must be proactive, well thought through, coherent, relevant, operationally useful, and achievable. A Management response is considered monitorable if it is specific, result oriented, and time bound. It is concluded that a learning process has taken place, the learning curve was formally influenced by the DEC, and while the quality of Management responses has improved, further improvement is needed. A necessary condition for such improvement is improvement in the quality of OED report recommendations. Furthermore, staff must be made to understand the basic accountability established by Management's response to an evaluation report.

47. In September 2004, in a memorandum to the President, the Chairperson of DEC affirmed that "Management response (to an OED report) is of fundamental importance to the institutional results-based learning process because it provides the primary basis for ADB implementation of the recommendations and for the monitoring of such implementation". It is Management's response to an evaluation that makes the implementation of recommendations operational, with responsibilities and timeframes assigned. In that same memorandum, the DEC Chairperson suggested that Management was expected to use its response to specify the priorities that ADB planned to place on the recommendations in an evaluation report "given the reality that some recommendations may not be immediately actionable or may require further cost-benefit examination". The DEC also expects Management to take further necessary actions in addition to those recommended by OED on major issues identified by independent evaluations, since OED cannot be expected to come up with all the necessary and effective solutions, especially those of a strategic nature that *only* Management can decide. The DEC expects that evaluation recommendations that Management does not agree with should be considered "learning hypotheses" for further future consideration.

48. The extent of ADB actions on evaluation recommendations is also assessed in the 2005 Annual Evaluation Review. It is reported that action has been taken on 70–80% of the evaluation recommendations in 2001–2003.

49. **Steps for Improvement.** The DEC believes that improvements in the overall learning and implementation system could be achieved through further efforts at partnership among core stakeholders, including the DEC, aimed at achieving greater accuracy, understanding, and commitment. Subject to the understanding that in doing an evaluation OED must arrive at an independent conclusion and is not bound to accept any of the views that are put to it, an effective partnership process could focus on the following steps:

- (i) before the start of an independent evaluation, consultation with the main users of the evaluation, including the regional department, the borrower, implementing agency, and NGOs, as appropriate, to review the scope of evaluation questions and to help flag issues and information sources for the evaluation;
- (ii) the independent evaluation, including the user consultation and review process for draft reports that is already required under the current policy;
- (iii) upon completion of the evaluation, discussion between the evaluator and the main users to ensure understanding of the recommendations, generate initial response by the main stakeholders on what are found acceptable and feasible, and to establish early commitment on actions to be undertaken, with responsibilities identified and a timeframe;
- (iv) formally specifying the action plan in the Management response to the evaluation report; and
- (v) monitoring all such action plans cumulatively and reporting progress to the Board, through the DEC, annually.

These steps have been found to be useful for achieving results in certain other multilateral development institutions.

50. The DEC can report that certain actions on steps (i)–(iv) are already being undertaken or proactively planned by ADB.

- (i) At the DEC meeting of 1 September, OED committed to start to involve stakeholders of an evaluation, particularly the operations departments and the government, from the start of the process in future evaluations, in reviewing methodology, scope, and questions to be addressed. In the same context, OED has committed to sending a formal reply to all written comments sent by government or executing agencies to OED in the course of an evaluation, to acknowledge the comments and to describe how they were taken into account in finalizing the report, after duly consulting with the operations department concerned.
- (ii) The quality of OED's independent evaluations in 2004 was generally appreciated by the DEC.
- (iii) In its 2005 Annual Evaluation Review, OED has committed to "increase its interactions with operational staff of ADB and DMCs concerning draft OED recommendations in order to try to develop greater understanding of OED recommendations among those (who would be) responsible for implementing them."
- (iv) Specificity of actions planned significantly increased in the Management responses to evaluation reports in the later part of 2004 and has continued in 2005, culminating in an unprecedented agreement by Management to formulate a comprehensive action plan to address the issues defined in the annual report on portfolio performance (section III above).

51. The weakest link in the evolving process is in step (v), effective monitoring and reporting on actions taken. This is because (a) monitoring and reporting is done by OED (see section IV above) while accountability is with Management; and (b) OED currently reports, on a snapshot basis, the status of actions taken as of two years after a year's set of recommendations were made, not progressively (if no action had been taken in 2004 on an OED recommendation made in 2002, there is currently no updated information in 2005 on that recommendation). Also,

reporting would be more timely if done a year after the recommendations are made, not two. These deficiencies may be addressed in implementing the DEC recommendation in paragraph 40 of section IV.

## **B. Enhancing the DEC's Contribution**

52. On behalf of the Board, the DEC engages Management in responding to evaluation findings. Accordingly, the DEC considered OED's major reports in 2004 together with Management's responses (if made) and provided its independent views, endorsements, and suggested priorities for action by Management. The OED reports were placed in the public domain together with the DEC Chairperson's summaries of the DEC discussions of the reports.

53. Appendix 4 summarizes, in matrix format, the key aspects of DEC responses to major OED reports approved in 2004, as documented and disclosed in the Chairperson's summaries of the DEC discussions. In addition to conclusions that the DEC could reach a consensus on (column 6), any disagreements by some or all DEC members to a conclusion or recommendation in an OED report, or on the quality of or process in arriving at a conclusion or recommendation, are summarized (column 7). Then specific and monitorable actions that the DEC recommended to Management are listed (column 8). Finally, there is a description of other specific impacts that the DEC considers to have resulted from its discussions (column 9). The committee considers that it is particularly the areas addressed by last three columns of the matrix (columns 7–9) that offer the most opportunities for DEC to add value to the process.

54. The DEC considers that it can enhance its contribution to the lessons learning and implementation process by:

- (i) focusing its discussions on major OED reports (special evaluation studies on a development issue or of a thematic nature, country and sector assistance program evaluations, ADB policy evaluations, the annual reports) and discussing an individual project/program performance evaluation only on an exceptional basis (in calendar year 2005, no individual PPAR or TPAR was discussed by the DEC);
- (ii) ensuring that DEC discussions of the related evaluations precede and feed into full Board discussions of policies and strategies. Specifically, just as the lessons learned from an individual operation performance evaluation report are fed into the design of a related new operation, the lessons learned from a country assistance program evaluation (CAPE) should feed into the next country strategy and program (CSP); those from a sector assistance program evaluation into the review of a sector strategy; those from evaluation of the effectiveness of ADB policies, procedures and practices, into future reviews of these; and those from annual reviews of overall evaluation results, into future medium term strategies (MTS) of ADB;
- (iii) ensuring, through the interventions of DEC members at Board discussions, that the full Board actively uses lessons from evaluations in its deliberations;
- (iv) if called for, exercising the discretion to request the Chairman of the Board to include a major evaluation issue in the agenda of a Board meeting; and
- (v) calling on Management for actions that are beyond the scope or competence of OED to propose.

## **VI. OVERALL ASSESSMENT**

### **A. Adequacy and Efficiency of ADB Operations Evaluation in 2004**

55. The DEC is satisfied that ADB's operations evaluation activities in 2004 were adequate and efficient, and so reports to the Board. Areas for improvement in ADB's development effectiveness are noted by the DEC in this annual report.

56. The DEC members take this opportunity to thank the Chairman of the Board for the trust he has placed on them to carry out this important responsibility on behalf of the Board.

57. The members of the Board are advised of Board actions that need to be taken in the immediate and near future in the new context of the organizational independence of OED:

- (i) approval of OED's work program for 2006 (as recommended in subsection B below); and
- (ii) approval of OED's administrative budget for 2006 in a separate resource envelope as part of the overall ADB administrative budget for 2006.

### **B. OED Work Program Performance in 2004–2005 and Proposed Work Program for 2006**

58. OED's work program for 2004, as presented in the ADB Budget for 2004, had planned for the preparation of 22 individual PPARs, five TPARs, seven broad impact and special evaluation studies, three CAPEs, and the two annual reports. Actual completions in 2004, including of studies carried over from 2003, consisted of 18 PPARs, two TPARs, six impact and special evaluation studies, one CAPE, and the two annual reports. In addition, there were two publications, a working paper on development and effectiveness, and an article on ADB's past responses to disaster relief. By comparison, completions in 2003 consisted of 22 PPARs, six TPARs, five impact and special evaluation studies, a sector assistance program evaluation (SAPE), two CAPEs, and the two annual reports. In addition, a working paper was prepared on evaluation of policy-based lending. OED's capacity to complete deliverable reports in 2004 suffered from an unusually high percentage of vacancies in its international staff.

59. OED's work program for 2005, as approved by the Board when it approved the ADB Budget for 2005, planned for the preparation of 23 PPARs, three TPARs, four impact and special evaluation studies, two SAPEs, two special evaluations of ADB policies, two CAPEs, and the two annual reports. When reviewed with the DEC last month, it was estimated that 2005 completions would consist of 25 PPARs/TPARs, eight broad evaluation studies, three CAPEs, and the two annual reports. A number of the broad evaluations started in 2005 would be completed in 2006. Details are provided in Appendix 5, Attachment 1.

60. OED is also chairing the Evaluation Cooperation Group (ECG) of the Multilateral Development Banks from 1 June 2005 to 31 May 2006 and, for the first time since the ECG was established in 1995, the venue for the ECG's semiannual meeting is ADB headquarters in Manila. OECD DAC and UNDP are observers in the ECG. The ECG meeting is being held in ADB on 17–19 October 2005. A thematic day will focus on sharing experiences and practices in country evaluations.

61. **Proposed OED Work Program for 2006.** The DEC reviewed and provided its inputs to OED's work program framework for 2006–2008. The final proposed three-year program is attached as Appendix 5. At OED's initiative and with DEC encouragement, the proposed 2006–2008 program benefits from an unprecedented extent of consultation with and inputs from not only current DEC members but also past DEC members, the President, the Vice-Presidents, as well as operations departments. The write-up in Appendix 5 describes the broad strategic context for the proposed program and the process and criteria used to identify and select the planned evaluations. OED's capacity constraints are also explained.

62. The DEC supports the gradual shift in ADB's operations evaluation program towards country and sector level assistance program evaluations as well as thematic and special evaluations, while maintaining a required minimum of individual operations evaluations to continue the accumulation of lessons learned on the ground. Such shift should enable the evaluation work program to become closely aligned with ADB's medium to long term strategic directions and to support the President's reform agenda, as well as to support the commitments ADB has made under ADF.

63. **Recommendation.** The DEC endorses OED's proposed work program framework for 2006–2008 as provided in Appendix 5, Attachment 1 and recommends Board approval of the work program for 2006 as presented in Appendix 5, Attachments 1 and 2.

64. If the Board approves the committee's recommendation for public disclosure of this DEC annual report after Board consideration of it, then two requirements specified in ADB's new public communication policy would also be met:

- (i) that ADB shall make a list of its operations evaluations planned for the year (2006) publicly available in December of the previous year; and
- (ii) that the selection criteria for its evaluations shall also be made publicly available.

## VII. SUMMARY OF RECOMMENDATIONS

### A. Recommendations for ADB Consideration

65. In summary, the DEC recommends through the Board to ADB that:

- (i) a system be put in place to monitor actions on DEC recommendations;
- (ii) Management propose a comprehensive action plan, to be presented to the full Board, to address the key strategic issues analyzed in *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004*;
- (iii) the subsection of the annual evaluation review that reports on follow-up actions on OED recommendations be elevated to a major section in the next annual evaluation review, and a system be established for monitoring the cumulative progress of actions on OED recommendations; and
- (iv) implementation of the proposal by SPD to report periodically to the DEC, on behalf of Management, on the progress of actions on the MfDR agenda, subject to agreement with SPD on the nature and frequency of such reporting.

**B. Recommendations for Board Approval**

66. The DEC recommends that the Board approve:

- (i) the OED Work Program for 2006 as presented in Appendix 5; and
- (iii) public disclosure of this DEC annual report after its consideration by the Board.

**TERMS OF REFERENCE OF THE  
DEVELOPMENT EFFECTIVENESS COMMITTEE  
OF THE BOARD OF DIRECTORS**

1. The Development Effectiveness Committee (the Committee) will assist the Board of Directors to carry out its responsibility of ensuring that the programs and activities of the Asian Development Bank (ADB) achieve development effectiveness. Such development effectiveness is assessed through ADB's operations evaluation. To ensure the independence of ADB's operations evaluation, the Operations Evaluation Department (OED) reports directly to the Board through the Committee. For the purpose of the Committee's work, "development effectiveness" is the measure of (i) whether ADB's programs and activities in furtherance of its policy goals and objectives have resulted in the desired outcomes, and (ii) whether these programs and activities have made efficient use of ADB's available resources.

**A. Composition**

2. The Committee will consist of not more than six members of the Board of Directors. The President will appoint the members of the Committee, in consultation with the Board, and will designate one of them as the chairperson of the Committee.

3. The members of the Committee will be appointed for a term starting on 1 July of the appointment year and ending on 30 June two years later. If a member of the Committee ceases to be a member of the Board, the President, in consultation with the Board, will appoint a replacement for the remaining term of the Committee.

**B. Responsibilities**

4. The Committee will be expected to satisfy itself that ADB's operations evaluation activities are adequate and efficient. In this regard, the specific responsibilities that the Committee will carry out on behalf of the Board are as follows:

- (i) recommend to the Board, jointly with the President, the person to be considered by the Board for appointment as Director General of OED, subject to the terms and conditions approved by the Board;
- (ii) advise OED in the preparation of an annual OED work program that the Committee can endorse to the Board for approval;
- (iii) advise OED in the preparation of an annual budget proposal that the Committee can endorse for review by the Budget Review Committee;
- (iv) review all OED reports and discuss selected major reports, as well as Management responses to any report, before the reports are released to the public;
- (v) monitor and evaluate the actions taken by ADB on the recommendations in the OED reports accepted by Management and endorsed by the Committee to the Board;

- (vi) report to the Board on selected development effectiveness issues that have a significant bearing towards the achievement of ADB's overarching goal of poverty reduction, and make recommendations on such issues to the Board;
  - (vii) monitor and report to the Board on the implementation of its decisions;
  - (viii) review the Annual Report on Evaluation Activities; and
  - (ix) review the Annual Report on Loan and Technical Assistance Portfolio Performance.
5. The Committee will make reports and submit recommendations to the Board of Directors through the President in his capacity as the Chairman of the Board.
  6. The Committee will make reports as it considers necessary, but at least once a year.

### **C. Meetings**

7. The Committee will meet as often as it considers necessary.
8. Committee meetings will be held at ADB headquarters in Manila.
9. The quorum for a meeting will be three members of the Committee. If the Chairperson is not present in person, the Committee will select one of the members present to preside over that meeting.
10. All other Board members may attend meetings of the Committee. Directors' Advisors may attend the meetings of the Committee except as otherwise advised by the Chairperson of the Committee.

### **D. Information and Communication**

11. OED will furnish to the Committee any pertinent information as is considered necessary by the Committee to discharge its responsibilities. The Committee may, with the concurrence of the President, seek briefings from staff members concerned on relevant operations evaluation matters and request their participation at meetings.
12. If a document or information requested by the Committee is not provided, the request may be referred by the Chairperson of the Committee to the President, in the President's capacity as Chairman of the Board of Directors, for a final decision.
13. All communication between the Committee and ADB staff, other than OED staff, will be conducted through The Secretary of ADB. The Office of The Secretary (OSEC) will be informed of all direct communication between the Committee and OED.

### **E. Administrative Arrangements**

14. OSEC will provide support services to the Committee.

**DEVELOPMENT EFFECTIVENESS COMMITTEE  
MEETINGS HELD FROM 25 AUGUST 2004 TO 10 AUGUST 2005**

Date	Agenda	Type of Study <sup>1</sup>
25 August 2004	Project Cost Estimates Livestock Development Project in Pakistan	SES PPAR
29 September 2004	Country Assistance Program Evaluation for Nepal Capacity Development Assistance of ADB to Lao PDR OED Work Program and Budget for 2005–2007	CAPE SES
27 October 2004	Small-Scale Freshwater Rural Aquaculture Development for Poverty Reduction Nam Leuk Hydropower Project in Lao PDR OED Budget for 2005	SES PPAR
14 February 2005	The Committee's Work Program for 2005 Disclosure Procedure for OED Reports	
8 March 2005	Effectiveness of Participatory Approaches: Do the New Approaches Offer an Effective Solution to the Conventional Problems in Rural Development Projects? Selected ADB Interventions on Nutrition and Food Fortification OED Guidelines To Avoid Conflict of Interest in Independent Evaluations	SES SES
6 April 2005	Report by DG, OED on the MDB Evaluation Cooperation Group (ECG) meeting in London, March 14–16 ECG Good Practices for the Evaluation of Policy-Based Lending Second Benchmarking Review of ECG Members' Evaluation Practices for Their Private Sector Investment Operations	
9 June 2005	Role of Project Implementation Units (PIUs) Country Assistance Program Evaluation for Bhutan	SES CAPE
5 August 2005	Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004	AR
10 August 2005	2005 Annual Evaluation Review	AR

<sup>1</sup> AR = annual report, CAPE = country assistance program evaluation, PPAR = project/program performance audit report, SAPE = sector assistance program evaluation, SES = special evaluation study.

**STATUS OF IMPLEMENTATION OF KEY RECOMMENDATIONS OF THE DEVELOPMENT EFFECTIVENESS COMMITTEE  
IN 2002–2004**

DEC Recommendations	DEC Assessment of Implementation as of July 2004	Department/ Office Responsible	DEC Assessment of Implementation as of August 2005
<b>A. Annual Report on Loan and Technical Assistance Portfolio Performance (<i>the Annual Report</i>) for the Period Ending 31 December 2001 (Discussed by the DEC on 30 May 2002)</b>			
1. <b>Project readiness.</b> In May 2002, the DEC became alarmed about the time taken for loans to be effective as long delays result in an inefficient use of resources. The DEC believed that it was time to introduce a “project readiness filter” as a management tool to ensure that conditions set originally for Board consideration are not deferred to loan effectiveness, possibly delaying the latter.	In June 2002, COSO revised Project Administration Instruction (PAI) 1.01: Initial Project Administration Activities to incorporate and recommend a number of good practices relating to project readiness (see Section C: Actions During Loan Processing, paragraph 8 of PAI 1.01).  As of May 2003, a year later, the DEC considered that actions taken on delays in loan effectiveness, as reported in <i>the Annual Report</i> for the period ending 31 December 2002, were unsatisfactory, despite the action already taken by COSO.  As of July 2004, the DEC found that actions remained unsatisfactory.	COSO; SPD; RDs	See C.3 below.
<b>B. Annual Report on Loan and Technical Assistance Portfolio Performance (<i>the Annual Report</i>) for the Period Ending 31 December 2002 (Discussed by the DEC on 7 May 2003)</b>			
1. <b>Negative net resource transfer.</b> By country, more than half of the borrowing DMCs had a negative net resource transfer in 2002. The DEC was concerned by this outcome and suggested that the reason behind this phenomenon be examined thoroughly.	<i>The Annual Report</i> for the period ending 31 December 2003 reported a total negative net resource transfer of -\$5.3 billion from ADB to its borrowing DMCs, even lower than -\$1.3 billion in 2002, although the 2003 figure was largely due to prepayments made by only three DMCs (Republic of Korea, PRC, and India). However, a systematic analysis of the reasons behind negative resource transfer was not yet available.	COSO, OED	see C.2 below
2. <b>TA completion reports.</b> The DEC was disturbed that the achievement rate on TA completion reports (TCRs) in 2002 was the lowest in 5 years. The DEC noted that the worst performers were some of the knowledge departments such as ERD and RSDD. The DEC requested that the heads of these departments explain their low achievement rates on TCRs.	<i>The Annual Report</i> for the period ending 31 December 2003 noted that the achievement rate of TCRs rose to 83% in 2003, the highest level in the last 5 years. RDs had a high level of achievement (82–106%). However, RSDD achieved only 46% of planned TCRs and ERD achieved 65%. At the DEC meeting to discuss <i>the Annual Report</i> covering 2003, Director General, RSDD provided an explanation and said he expected achievement would be significantly higher in 2004.	RDs, knowledge departments	See C.6 below

	DEC Recommendations	Actions Observed, as reported in <i>Annual Report on Loan and TA Portfolio Performance for Year Ending 31 December 2004</i>	Department/ Office Responsible	DEC Assessment of Implementation as of August 2005
3.	<b>Delegation to resident missions.</b> The DEC was disappointed with the slow pace of delegation of loan administration to resident missions (RMs). The Committee requested Management to share with the Board the results of the ongoing review of the RM Policy.	<i>The Annual Report</i> for the period ending 31 December 2003 included a special investigation on delegation to RMs. The investigation concluded that despite large differences among RDs and mixed results among RMs, the proportion of projects administered by RMs could be increased significantly and the process of delegation could be accelerated.	RDs	See C.5 below
<b>C. Annual Report on Loan and Technical Assistance Portfolio Performance (<i>the Annual Report</i>) for the Period Ending 31 December 2003 (Discussed by the DEC on 7 July 2004)</b>				
1.	<b>Measurement of development results.</b> The DEC agreed that there was a basic problem in trying to use the ratings in the project performance report (PPR) both for portfolio performance measurement and portfolio performance management. As long as PPR ratings were also used to measure success, they could not be relied on to identify all projects that should be rated as problem or at-risk. To provide the right incentive, the PPR should be considered primarily a tool for portfolio performance <i>management</i> . Accordingly, the DEC recommended that Management give very high priority to the report's principal recommendation to pilot-test annual reporting on the production of outputs against projections in selected sectors as a better alternative to measure portfolio performance	Pilot testing of reporting on the production of outputs against projections has not been carried out to date.	COSO and RDs	<i>Unsatisfactory</i>
2.	<b>Negative net resource transfer.</b> The DEC remained unsatisfied with actions taken on its recommendation in 2003 that the reasons behind the phenomenon of negative net resource transfers be thoroughly examined. The DEC recommended giving higher priority to the current <i>Annual Report</i> recommendation that the reasons for the trend be further analyzed, preferably on a country basis, so that corrective action could be taken if called for.	An explanation of the large, negative net resource transfers during 2002–2004 is provided in Section II.B.4 <i>Annual Report on Loan and TA Portfolio Performance for Year Ending 31 December 2004</i> . They were due to prepayments of relatively expensive OCR loans by 5 DMCs and are expected to continue during 2005, although at a lower level.	OED	<i>Satisfactory</i>

DEC Recommendations		Actions Observed, as reported in <i>Annual Report on Loan and TA Portfolio Performance for Year Ending 31 December 2004</i>	Department/ Office Responsible	DEC Assessment of Implementation as of August 2005
3.	<b>Project readiness.</b> The DEC noted from <i>the Annual Report</i> that the sharp increase in average time from loan signing to effectiveness reported in 2002 did not improve in 2003. Accordingly, in its 2004 annual report to the Board, the DEC recommended that project readiness criteria should graduate from being advisory to mandatory.	Project and program start-up delays are continuing to increase, and the bunching problem persists. The application of the project-readiness filters in Project Administration Instruction (PAI) 1.01 remains voluntary.	RDs	<i>Remains unsatisfactory</i>  Regional departments affirm that project readiness criteria are being seriously followed, including by some DMCs, However, the DEC considers that a readiness checklist, signed off by the responsible department, remains an objective.
s4.	<b>Private sector operations.</b> The DEC recommended giving high priority to the recommendation that measures of development effectiveness should be specified for private sector operations during design and monitored during implementation.	Efforts to improve the quality of the evaluation of private sector operations began in 2004 with OED's engagement of a consultant to draft appropriate guidelines based primarily on the Good Practice Standards of the Evaluation Cooperation Group. The consultant has been working with PSOD to improve the quality of its self-evaluation, particularly in assessing the development outcome of its operations.	OED and PSOD	<i>Not yet satisfactory</i>  Pending further demonstrated achievement.
5.	<b>Delegation to resident missions.</b> The DEC placed high priority on the current <i>Annual Report's</i> recommendation that the process of delegation to resident missions (RMs) should be accelerated with contingent actions, including transfer of resources from headquarters, as appropriate.	The number of loans delegated to RMs increased by 43% during 2004, to a high of 137 at year-end.	RDs	<i>Satisfactory</i>
6.	<b>TA management.</b> The DEC strongly recommended that Management specify a concrete action plan for improving the management of the TA portfolio, including improvement in the achievement rate of TCRs and application of a more strategic and results-based approach to TA resource allocation, particularly in the case of advisory TA. OED was asked to focus a future evaluation on the development effectiveness of advisory TA.	In 2005, OED started a special evaluation study on the effectiveness of ADB's TA operations, for completion in 2006. In the context of the study, OED is working closely with an SPD-led inter-departmental task force on TA reform.	OED and SPD	<i>Satisfactory</i>

	DEC Recommendations	Actions Observed, as reported in <i>Annual Report on Loan and TA Portfolio Performance for Year Ending 31 December 2004</i>	Department/ Office Responsible	DEC Assessment of Implementation as of August 2005
7.	<b>Flexibility in budget and staff allocation in project supervision.</b> The DEC placed high priority on the recommendation that more flexibility should be allowed in budget and staff resource reallocation, both within and across departments, so that projects flagged as being at risk get extra supervision.	As discussed in <i>Annual Report on Loan and TA Portfolio Performance for Year Ending 31 December 2004</i> , there has been a steadily declining trend in the number of projects reviewed each year—during 2004, up to 20% of projects and 75% of TAs were not reviewed in the field, and the time spent by international professional staff on mission has also decreased.	RDs	<i>Unsatisfactory</i>
8.	<b>Critical path analysis.</b> Project preparatory TA should prepare critical path analyses to identify the critical path, expected task durations, and key milestones in project implementation, and the same project management software should routinely be used during project implementation. These were concrete and practical actions that the DEC highly endorsed.	Critical path analysis was not required or used during project preparation in 2004.	RDs	<i>Unsatisfactory</i>
9.	<b>Greater focus on results.</b> More flexibility might be required “with a view to speeding up processes, lowering transaction costs, and customizing responses while not prejudicing development outcomes or good governance principles”. The <i>Annual Report</i> suggested that a greater focus on results and less on process was called for and that this would “allow more staff time to be allocated to achieving development outcomes.” The DEC agreed.	The ADB Reform Agenda launched in 2004, including the Managing for Development Results initiative, and the Innovation and Efficiency Initiative address this recommendation.	Management	<i>Satisfactory</i>
<b>D. Annual Review of Evaluation Activities (AREA) in 2003 (Discussed by the DEC on 7 July 2004)</b>				
1.	<b>Thrust of evaluation program.</b> The DEC supported the gradual shift in ADB’s operations evaluation program towards country and sector level assistance program evaluations as well as thematic and special evaluations, while maintaining a required minimum of individual operation evaluations to continue the accumulation of lessons learned on the ground.	Recommendation under implementation starting with OED work program for 2005–2007, which was reviewed and endorsed by the DEC in September 2004 and approved by the Board in December 2004. Further implementation is reflected in OED’s proposed work program for 2006–2008.	OED	<i>Satisfactory</i>
2.	<b>Thematic focus.</b> The DEC suggested that future AREAs might consider adopting a thematic focus for each year’s	Recommendation implemented starting with <i>2005 Annual Evaluation Review</i> (which has replaced the AREA) that includes a	OED	<i>Satisfactory</i>

DEC Recommendations	Actions Observed, as reported in <i>Annual Report on Loan and TA Portfolio Performance for Year Ending 31 December 2004</i>	Department/ Office Responsible	DEC Assessment of Implementation as of August 2005
review.	theme chapter on evaluation findings in the power sector. Future annual reviews will similarly include theme chapters.		
3. <b>Trend in project success.</b> The DEC noted that the evaluation results for 2003 strengthened the long-term trend first analyzed in the previous year's review, that a trend of declining success rate for projects completed since 1974 was reversed in 1989 and has steadily increased since then. The DEC encouraged OED to further analyze the reasons behind this positive trend so that there is a clearer understanding of what has gone well and what can be done better. The DEC considered this evaluation of critical importance to ADB's future.	The <i>2005 Annual Evaluation Review</i> provides further, in-depth analysis of the trend in success rate of ADB's public sector projects, by sector and by country.	OED	<i>Satisfactory</i>
4. <b>Improvement in quality of OED recommendations.</b> The DEC concurred with the report's suggestion that responsiveness by borrowers and ADB departments to follow-up actions recommended in individual evaluation reports could further improve if the follow-up actions were more specific and had a timeframe specified.	The <i>2005 Annual Evaluation Review</i> reviewed 25 OED reports completed in 2003, which recommended a total of 105 follow-up actions. The review assesses that the quality of recommendations in OED reports has been improving. For the year under review, all recommendations were specific in stating <b>what</b> was to be done. However, 8% did not specify <b>who</b> was responsible for taking the action and 9% did not give a specific date <b>when</b> the action should be completed. These percentages were significant improvements over those of the previous year. Further improvement is expected.	OED	<i>Satisfactory</i>

## Highlights of Conclusions of DEC Discussions of Major OED Reports Approved in 2004

Type	DG, OED approval	Cty	Title	Date discussed by DEC	DEC consensus conclusion, based on Chair's summary	Any disagreement?	Specific and monitorable actions recommended to Management, to be monitored by DEC (performance indicators specified)	Other specific impact of DEC discussion
PPAR	21-Apr-04	VIE	Road Improvement Project	26-May-04	DEC endorsed to the Board the conclusions of the PPAR specifically the successful rating, key issues for future operations, and lessons.	None.	<ul style="list-style-type: none"> <li>Implementation of follow-up actions recommended in PPAR should be monitored by MKRD under supervision of Management.</li> </ul>	DEC noted absence of Management response. Some members expressed their view that a response is part of Management accountability. DEC sought and received confirmation that adversely affected households had been adequately compensated.
PPAR	18-May-04	PAK	Livestock Development Project	25-Aug-04	DEC generally endorsed the key issues and lessons recommended to be addressed in future livestock projects. Since Management responded that the lessons were already being applied in recent livestock projects in the South Asia and Mekong regions in general, DEC considered this lessons-learning experience to be a model for a successful knowledge management process.	None.	<ul style="list-style-type: none"> <li>DEC requested, for purposes of dissemination, a more thorough summary of ADB's recent approaches to livestock development in South Asia. The subsequent staff response, in form of a memorandum, was attached to the Chairperson's summary as disclosed publicly.</li> </ul>	DEC agreed that applicability of lessons learned from this evaluation extended beyond Pakistan, to the South Asia and Mekong regions in general. On behalf of the Board, DEC considered that a 'top-down' approach to implementation - and development in general - did not work. DEC recognized private sector involvement as a key to success.

Type	DG, OED approval	Cty	Title	Date discussed by DEC	DEC consensus conclusion, based on Chair's summary	Any disagreement?	Specific and monitorable actions recommended to Management, to be monitored by DEC (performance indicators specified)	Other specific impact of DEC discussion
PPAR	26-Aug-04	LAO	Nam Leuk Hydropower Project	27-Oct-04	DEC generally endorsed key issues and lessons identified and the recommended follow-up actions. DEC agreed it was a successful project from the technical point of view, but also recognized the unintended negative side effects of the project.	DEC as a whole thought the follow-up actions recommended should have gone into greater detail so as to be monitorable, including how actions would be funded and what the timeframe was.	<ul style="list-style-type: none"> <li>• DEC expected Management to ensure timely completion of the action plan that, per Management's response, the Government had agreed to prepare. DEC asked OED to monitor progress in implementation of the action plan and report this to the DEC.</li> <li>• DEC asked Management to provide a response to the letter from International River Network.</li> </ul>	DEC affirmed the evaluation would be an important input to Board consideration of the loan proposal for the next hydropower project, Nam Theun II. DEC recognized value of OED and RD working together closely on follow-up actions to be recommended.
SES	25-Jun-04	LAO	Capacity Development Assistance of the Asian Development Bank to Lao People's Democratic Republic	29-Sep-04	DEC endorsed lessons, learned, key issues, and recommendations for consideration in ADB's future capacity development assistance.	Some DEC members thought internal ADB deficiency in making corrections at design or implementation stages could have been addressed more adequately.	<ul style="list-style-type: none"> <li>• DEC asked to be regularly updated on progress by the capacity development working group in formulation of a 2005-2009 action plan planned for Management approval in March/April 2005.</li> </ul>	On behalf of the Board, DEC considered findings universally applicable to other DMCs.
SES	28-Jul-04		Project Cost Estimates	25-Aug-04	DEC generally endorsed the special study's conclusions and the objectives of its main recommendations. DEC agreed that the study pointed to issues larger than technical or due diligence; potentially involved were more fundamental issues involving ADB as a lender, including implications for ADB income.	None.	<ul style="list-style-type: none"> <li>• DEC considered that an action plan was the next step.</li> <li>• DEC said it wished to engage Management in the consideration of more specific next steps to be taken on each of the recommendations of the study, i.e., an action plan.</li> </ul>	In 2002, DEC had specifically asked for this study. The discussion completes this DEC initiated process. DEC discussion provides rationale for need to review ADB policies or practices on loan size, local cost financing, physical and price contingencies, IDC, commitment charge accrual, supplementary loans, and use of loan savings.

Type	DG, OED approval	Cty	Title	Date discussed by DEC	DEC consensus conclusion, based on Chair's summary	Any disagreement?	Specific and monitorable actions recommended to Management, to be monitored by DEC (performance indicators specified)	Other specific impact of DEC discussion
SES	28-Jul-04	REG	Small-Scale Freshwater Rural Aquaculture Development for Poverty Reduction	27-Oct-04	DEC commended analytical framework and innovative format. DEC endorsed value of study as a handbook for staff and external practitioners and researchers.	Some DEC members thought performance indicators should be integrated into the suggested analytical framework. Some members thought study's recommendations should have been more affirmative.	<ul style="list-style-type: none"> <li>• DEC suggested dissemination of the study to a wide external audience.</li> <li>• DEC asked to be informed how Management saw aquaculture development fitting into ADB's poverty reduction strategy.</li> </ul>	DEC endorsed use of photographs in OED reports. DEC endorsed greater dissemination of the study.
SES	02-Dec-04	REG	ADB Interventions on Nutrition and Food Fortification	08-Mar-05	DEC generally endorsed the key conclusions and recommendations.	Some DEC members expressed skepticism that TA carried out at regional rather than national level would be effective.	<ul style="list-style-type: none"> <li>• DEC expected the study to be an important input to a new, integrated health, nutrition and population strategy for ADB planned in 2006.</li> <li>• DEC placed priority on recommendations that in designing future food fortification interventions, ADB should take account of the costs to government of making the benefits sustainable.</li> <li>• DEC encouraged Management in its review of TA effectiveness to further consider the hybrid TA modality suggested in the OED study, which would allow small investment components, e.g., for pilot projects.</li> </ul>	DEC took opportunity to endorse idea of an integrated health, nutrition and population strategy for ADB. DEC members strongly agreed that ADB should continue playing the role of catalyst in nutrition development efforts in the region.

Type	DG, OED approval	Cty	Title	Date discussed by DEC	DEC consensus conclusion, based on Chair's summary	Any disagreement?	Specific and monitorable actions recommended to Management, to be monitored by DEC (performance indicators specified)	Other specific impact of DEC discussion
SES	28-Dec-04		Effectiveness of Participatory Approaches: Do the New Approaches Offer an Effective Solution to the Conventional Problems in Rural Development Projects?	08-Mar-05	Most DEC members endorsed key conclusions and recommendations. Consensus reached that ADB should do a better job of using participatory approaches; staff need better guidance; ADB culture, incentives, and processes need to change for participation to become a norm. Agreed that "one size fits all" template for participation would not be effective.	One member wished to disassociate himself from the study because the study's underlying premise about the nature and purpose of participation did not adequately represent fundamental role of participation in the development process.	<ul style="list-style-type: none"> <li>• Management was expected to consider the study as an important input to a revisit of the 1996 staff guidelines on mainstreaming participatory processes. OED was asked to monitor timetable and progress of the review.</li> <li>• Management was expected to provide adequate staff training together with the updated guidelines.</li> </ul>	DEC brought out potential for confusion or differences in perception, even at the Board, when addressing the objectives of participation. Many DEC members considered study a useful reference when reviewing loan proposals involving participatory approaches. Some expressed view that the study should be considered as encouragement to try new or different approaches and risk mistakes.
CAPE	06-Jan-04	CAM	Cambodia	02-Mar-04	DEC broadly endorsed to the Board the CAPE conclusions and recommended that lessons and implications be specifically considered in next CSP.	None.	<ul style="list-style-type: none"> <li>• Private sector development should be included in CSP.</li> <li>• Public sector reform should be explicit priority in CSP.</li> <li>• Improvement of aid coordination should be explicit goal in CSP.</li> <li>• CSP should internalize the MDGs.</li> <li>• Use of increased cofinancing in addition to ADF resources should be planned in CSP.</li> </ul>	This was first report by OED under new independent structure. It also set the precedent that CAPE discussion by DEC should precede Board discussion of new CSP. On substance, DEC advised that the piloted framework could be used as a model for other CAPEs but rating system needs further review.

Type	DG, OED approval	Cty	Title	Date discussed by DEC	DEC consensus conclusion, based on Chair's summary	Any disagreement?	Specific and monitorable actions recommended to Management, to be monitored by DEC (performance indicators specified)	Other specific impact of DEC discussion
CAPE	01-Sep-04	NEP	Nepal	29-Sep-04	DEC generally agreed with the CAPE.	Key disagreement by all DEC members with parallel CAPE/CSP process that had been used. Some members thought more detailed CAPE analysis of why certain sectors had worked better than others could have provided better sector inputs to the CSP.	<ul style="list-style-type: none"> <li>• DEC recommended to the Board that the CAPE's conclusions and recommendations should be taken into account in the new CSP for Nepal. DEC emphasized that new CSP should embody more sharply focused core program than in the past, while also incorporating flexibility in the strategy to deal with political uncertainties in Nepal.</li> </ul>	DEC took strong stand in reaffirming that DEC discussion of the CAPE should precede, by an adequate period, Board discussion of the new CSP. DEC said it was not convinced that the parallel CAPE/CSP approach used for Nepal worked sufficiently as a knowledge management process. DEC found Management response to the CAPE substantive, the concerns expressed by Management a healthy sign of an active institutional dialogue on the lessons learning process.
AR	03-Jun-04		Annual Review of Evaluation Activities (AREA) in 2003	07-Jul-04	DEC generally endorsed the annual review and its conclusions. Subject to further analysis, DEC interpreted 15-year trend of increasing project success rates as indication of increasing development effectiveness. DEC considered the special section on TA evaluation and its suggestions to be of high priority for ADB.	None.	<ul style="list-style-type: none"> <li>• Report's suggestion of providing adequate incentives to staff for active supervision and reformulation of initially poorly designed operations, should be part of new HR strategy.</li> <li>• DEC asked for further analysis of reasons behind the positive 15-year trend in project success rates, giving it "primary importance to ADB's future."</li> <li>• Lessons learned from TA evaluations need to be synthesized at the country level.</li> </ul>	DEC agreed that the report achieved the desired increase in evaluative content previously requested by DEC. DEC suggested that future AREAs adopt thematic focus each year. DEC agreed that follow-up actions recommended in PPARs/TPARs could be more specific and timebound.

Type	DG, OED approval	Cty	Title	Date discussed by DEC	DEC consensus conclusion, based on Chair's summary	Any disagreement?	Specific and monitorable actions recommended to Management, to be monitored by DEC (performance indicators specified)	Other specific impact of DEC discussion
AR	09-Jun-04		Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2003	07-Jul-04	DEC generally endorsed the annual report and its recommendations, and asked OED to monitor actions taken on all recommendations.	None.	<ul style="list-style-type: none"> <li>• DEC gave high priority to principal recommendation to pilot-test annual reporting on aggregate outputs vs. projections in selected sectors.</li> <li>Also high priority to: <ul style="list-style-type: none"> <li>• further study of trend of reduced net transfers,</li> <li>• making project readiness criteria mandatory,</li> <li>• specifying measures of development effectiveness for private sector operations,</li> <li>• accelerating process of delegation to RMs,</li> <li>• improving management of TA portfolio and TA resources,</li> <li>• increasing flexibility in budget and staff reallocation so that projects at risk get extra supervision,</li> <li>• improving timeliness in cancellation of loan surpluses, and</li> <li>• making project implementation schedules more realistic.</li> </ul> </li> </ul>	DEC agreed that the annual report went a long way towards goal of increasing its evaluative nature. DEC explicitly emphasized that Management should take the report's recommendations into account in planning for the coming year's portfolio management.

## OED Work Program for 2006 to 2008

### A. Introduction

1. One of the keys to having an effective evaluation function is to select the right topics for evaluation studies. The preparation of the work program drew on discussions with the Development Effectiveness Committee (DEC) members, both individually and during the 1 and 28 September DEC meetings, discussions with the President and four Vice Presidents, and suggestions made by the operational departments and Operations Evaluation Department (OED) staff. OED's work program was revised to make it more strategic and more integrated. The 2006 to 2008 work program is shown in Attachment 1. The sample of Project/Program Performance Evaluation Reports (PPERs) planned for 2006 is shown in Attachment 2.

2. In addition to the evaluation studies shown in Attachment 1, OED undertakes a number of other activities including attending Management Review Meetings, commenting on draft Report and Recommendation of the President (RRPs) and Project Completion Reports (PCRs), disseminating OED findings, processing periodic technical assistance (TAs) to support the building of evaluation capacity in DMCs, participating in the Evaluation Cooperation Group (ECG) and OECD DAC meetings, and staff development/training.

### B. Broad Strategic Context

3. Four sources of information were used to provide the broad strategic context in which to consider the formulation of OED's work program: (i) ADB's Poverty Reduction Strategy; (ii) the President's address to the Board of Governors at ADB's 38<sup>th</sup> Annual Meeting; (iii) the indicators arising from the 2005 Paris Declaration on Aid Effectiveness; and (iv) the ADF IX Donors' Report: Development Effectiveness for Poverty Reduction.

4. **Poverty Reduction Strategy:** The three pillars of the Poverty Reduction Strategy (pro-poor sustainable economic growth; social development; good governance) and cross cutting themes (gender; regional cooperation; environmental sustainability; private sector development; capacity development) provide a context within which to select evaluation topics.

5. **President's Address at the 38<sup>th</sup> Annual Meeting:** The President highlighted issues related to: (i) relevance (focus and selectivity of operations; high quality products; support the attainment of MDGs; support for infrastructure from both public and private sector lending and ensuring that the poor have access; regional cooperation); (ii) responsiveness (streamlining business practices; innovation, flexibility and new products); and (iii) results (Managing for Development Results; Performance Based Allocations for ADF; accountability; transparency; guarding against corruption and fraud).

6. **Paris Declaration:** The quantitative indicators for the Paris Declaration include: (i) ownership of country development strategies; (ii) reliable country financial management and procurement systems; (iii) aligning aid flows to national priorities; (iv) strengthening capacity by donors providing coordinated support; (v) use of country public financial management and procurement systems; (vi) avoiding parallel implementation structures; (vii) making aid more predictable; (viii) untied aid; (ix) donors' use of common arrangements/procedures (programmatic based approaches); (x) use of joint missions and joint country work; (xi) use of results oriented frameworks; and (xii) mutual assessments.

7. **ADF IX Donor's Report:** Key points made in this report covered: (i) reducing poverty in the Asia Pacific region through achieving the Millennium Development Goals (reducing poverty remains the overarching goal of ADF; addressing the global development agenda; enhancing ADB's poverty reduction agenda); (ii) using development results to improve development effectiveness (moving from results to development effectiveness; managing for development effectiveness; harmonization to achieve development effectiveness); (iii) recognizing and rewarding performance—using resources effectively (strengthening the performance based allocation policy); (iv) recognizing weakly performing countries—staying engaged (weakly performing countries are a development priority); (v) development effectiveness through grants; (vi) ADB's commitment to reform—a stronger development partner; and (vii) from commitment to advocacy and action—deepening accountability (communicating and advocating ADF priorities; ADF midterm review).

8. Currently ADB is undertaking a considerable amount of work to improve the quality of services for OCR borrowers (e.g., Middle Income Countries Strategy; Innovation and Efficiency Initiative). OED will structure its work program to ensure that there is an appropriate degree of coverage of the smaller countries, fragile states, and weakly performing countries.

### C. Criteria Used to Prioritize OED Products in the Work Program

9. Over 90 proposals were mentioned as possible candidates for OED's 2006 to 2008 work program, including the evaluations for 2006 and 2007 submitted to DEC in 2004. This volume of work is far beyond the ability of OED to deliver. The following criteria were used to help set priorities and select from among the suggested evaluation studies:

- (i) **Annual OED Products:** Each year OED will provide support services to DEC, including for the preparation of DEC's Annual Report, and produce the Annual Evaluation Review, the Annual Loan and TA Portfolio Performance Report and the Evaluation Highlights. Themes were selected for each Annual Evaluation Review.
- (ii) **Priority for Country Assistance Program Evaluations (CAPEs):** Among OED products, a uniformly high priority was accorded to CAPEs. OED will strive to prepare CAPEs in anticipation of all CSPs. The production of timely CAPEs will be a major driver of the OED work program. Countries selected for CAPEs will not be based on the annual lending volumes. There will be adequate coverage of the smaller countries, fragile states, and weakly performing countries.
- (iii) **Sector Assistance Program Evaluations (SAPEs):** SAPEs will be undertaken in countries and sectors where ADB has a significant ongoing portfolio, relative to the size of ADB's operations in that country, and expected future operations are identified in the Country Strategy Program. These and other studies will be designed to feed into the preparation of CAPEs, rather than as one-off sector studies.
- (iv) **Special Evaluation Studies (SESSs):** SESSs cover a wide range of evaluations of strategic themes, policies/strategies or impact studies. The objective is for SESSs to have a strategic impact in areas that are consistent with the themes in paras. 4 to 8. Consideration will be given to the following factors when selecting topics for SESSs: (i) placing priority on topics that are significant for ADB's operations in terms of volume of lending or strategic priorities; and (ii) sequencing SESSs so that the results are timely and can contribute to ADB's decision making. The timing of OED's policy evaluations will be coordinated with the work program of the Regional and Sustainable Development Department (RSDD) and the

Strategy and Policy Department (SPD) in reviewing policies. Additional work will be undertaken to sharpen the criteria to prioritize SESs to guide the formulation of the 2007 to 2009 work program.

- (v) **Coverage of Project/Program Performance Evaluation Reports (PPERs):** The sample coverage of PPERs will be reduced to 25%, equivalent to about 20 PPERs per year. The projects/programs will be selected for evaluation using a random sample with some adjustments to provide inputs for CAPEs, SAPEs and SESs. Projects/programs are substituted in the purposeful phase of the selection by substituting a project with another having the same PCR rating so as not to bias the overall rating of ADB's portfolio.
- (vi) **Technical Assistance Performance Evaluation Reports (TPERs):** Piggybacked TAs will be evaluated and rated in PPERs. Broader assessments of TA performance will also be given in CAPEs, SAPEs and some SESs. In 2005, OED will begin an SES on the effectiveness of TA operations. Nevertheless, given concerns about TA performance, particularly ADTAs, OED will undertake TPERs that will assess the performance of a cluster of TAs in one country. These TPERs will be selected to feed into CAPEs.
- (vii) **Real Time Evaluations:** OED will experiment with undertaking real time evaluation each year to provide timely feedback on selected topics to improve ADB's development effectiveness. Each year one such evaluation will be included in the work program.

#### **D. OED's Capacity to Produce Evaluation Reports**

10. A large number of potential topics for evaluation studies were identified. OED's ability to deliver a work program depends on its staffing complement and budget allocation. OED's staff complement includes 26 international officers (including OED management and supernumeraries), 9 national officers and 10 administrative staff. Consistent with the ADB wide directions for preparing the 2006 work plan and budget (zero real budget and professional staff increases), OED's staff complement will not increase in 2006. The priority for 2006 will be to integrate the new staff recruited in 2005 into OED, to fill vacancies that are likely to occur in 2006, and to focus on issues related to team building, productivity and quality.

#### **E. Other Issues Considered in Formulating OED's Work Program**

11. In addition to choosing the right evaluation topics, other factors that affect the impact of OED's work include:

- (i) **Timing:** OED reports must be prepared before the policy debates take place and decisions are made. In this context, OED does not view the three year rolling work plan as something that is overly rigid and no attempt was made to "fill up" the 2008 work program. Rather, new studies can be added to the work plan and others deferred or dropped as strategic topics emerge during the year. The proposals in the Work Program for 2007 and 2008 will be reviewed and revised as necessary in 2006.
- (ii) **Quality of the Recommendations and of Management's Response:** OED will make continued efforts to sharpen its recommendations. However, for some of the broader evaluations, it may not be possible for OED to formulate comprehensive recommendations. In such cases Management could be asked to prepare a monitorable action plan to address the issues raised in the OED report.

## F. Work Program

12. The more complex evaluations take about 15 calendar months to complete. Thus some evaluations started in 2005 will be completed in 2006 and some studies begun in 2006 will be completed in 2007 (see Attachment 1). The 2006 work program is summarized below:

	New Evaluations Begun in 2006	Evaluations Completed in 2006 (Carryovers from 2005)
Annual Reports	3	3
CAPEs	3	2 (2)
Studies Related to CAPEs	8	7 (1)
SEs: Thematic	3	7 (5)
SEs: Policies/Procedures	5	4 (2)
Public Sector PPERs	20	19 (5)
Private Sector PPERs	1	3 (2)
Real Time Evaluations	1	1
TPERs	-	-
Others	3	5 (3)
<b>Total</b>	<b>47</b>	<b>51 (20)</b>

13. The OED program has been restructured to better support **ADB's Reform Agenda**. Examples of such evaluations are: (i) real time evaluation of project monitoring and management (2006); (ii) Effectiveness of ADB's Approaches to Partnering and Harmonization (Phase II, 2006); (iii) MfDR evaluation (2007); (iv) Evaluation of ADB's Accountability Mechanisms (2007); (v) Evaluation of the MTS (2008); (vi) IEI Evaluation (2008); and (vii) Effectiveness of ADB Operational Policies: Focus and Redundancy (2008).

14. An evaluation that started in 2005 and will be completed in 2006, the Joint Evaluation of GEF Projects, is OED's first attempt at a joint evaluation. As part of the broader harmonization agenda, there is increasing interest in the international evaluation community in undertaking joint evaluations. OED will look for opportunities to undertake joint evaluations in the future.

**OUTLINE WORK PROGRAM FOR EVALUATION REPORTS, 2006–2008**  
Operations Evaluation Department, Asian Development Bank

	2005	2006	2007	2008
<b>Annual Reports</b>				
Annual Evaluation Review (Theme Chapter)	1 (Changes in Project Performance; the Energy Sector)	1 (Determinants of Project Performance and Lessons from Successful Projects)	1 (Capacity Building)	1 (Regional Cooperation and Integration)
Annual Review Portfolio Performance (incorporating Special Studies for 2006 Loan and TA Portfolio Assessment <sup>1</sup> )	1	1	1	1
Evaluation Highlights	1	1	1	1
Country Assistance Program Evaluations (CAPEs)	BHU INO LAO <b>PAK UZB</b>	IND PRC SRI	MON NEP CARs Regional Pacific Regional	BAN BHU
Studies Related to CAPEs	Agriculture Sector Assistance Program Evaluation (SAPE) in Lao PDR <sup>1</sup>  <b>Road SAPE in IND<sup>1</sup></b>  Social SAPE in PAK <sup>1</sup>  Road and Road Sector Assessment Study, PAK <sup>1</sup>	<b>Energy SAPE in IND<sup>1</sup></b>  <b>Public and Local Government Administration in India (TPER)</b>  Building Country Systems in the PRC <sup>1</sup> (TPER)  Transport (Roads and Railways) SAPE in PRC <sup>1</sup>  <b>Law and Development in PRC (TPER)</b>  <b>Regional Cooperation in CARs<sup>1</sup></b>	BAN SAPE (TBD)  Water SAPE in Nepal	TBD  TBD

Note: Items highlighted in bold are 2006 deliverables.

	2005	2006	2007	2008
		<b>ADB's Support for Rural Development in the CARs<sup>1</sup></b> Environmental Management in CARs (TPER) <sup>1,2</sup>		
<b>Special Evaluation Studies</b>				
A. Thematic	Power SAPE in PHI <sup>1</sup> <b>Capacity Development in SRI<sup>1</sup></b> <b>Civil Society Organizations</b> <b>Poverty Exit and ADB Projects Targeting Poverty</b> <b>Capital Market Assistance</b> <b>Joint Evaluation of GEF Projects</b>	<b>Effectiveness of ADB's Operations in Support of Capacity Development</b> Governance Country Study (Pakistan) <sup>1,2</sup> <b>Evaluation of Private Sector Operations</b>	Evaluation of ADB's Support for Regional Cooperation and Integration  Evaluation of Selected Special Funds for Poverty and Lessons for Scaling-up/Replicability for ADB Lending (e.g., JFPR; DFID)	Effectiveness of ADB's Approach to Policy Dialogue and Reform (incorporating an Assessment of Degree of Country Ownership in ADB Operations and Evaluation of Program Lending and Use of Conditionality)  Evaluation of Results from MTS 2006–2008 Implementation
B. Policies and Procedures	<b>Effectiveness of TA Operations</b> Effectiveness of ADB's Partnering Approaches (Phase 1: PFTAC) <b>Evaluation of Fisheries Policy</b> Evaluation of Health Sector Policy Role of Project Implementation Units <b>Urban Sector Policy and Operations</b>	Effectiveness of the Sector Development Program Modality <b>Effectiveness of ADB's Energy Policy</b> Effectiveness of ADB's Approaches to Partnering and Harmonization (Phase II) Performance of ADB's Operations in Support of Rural Development <b>Effectiveness of ADB's Microcredit Operations</b>	Effectiveness of ADB's Adoption of Managing for Development Results (incorporating Evaluability of Country and Project Level Operations)  Results Obtained from the Implementation of ADB's Governance and Anti-Corruption Policies  Effectiveness of ADB's Support for Decentralization	Evaluation of the Results of the Innovation and Efficiency Initiative  Effectiveness of ADB's Approach to Transport Development  Results from ADB's Water Policy Implementation  Evaluation of Project Level Financial Analysis and Financial Management

Note: Items highlighted in bold are 2006 deliverables.

	2005	2006	2007	2008
		Evaluation of ADB's Safeguard Policies	Evaluation of ADB's Accountability Mechanisms	Effectiveness of ADB Operational Policies: Focus and Redundancy  Effectiveness of ADB's Resident Mission Policy
<b>Public Sector PPERs</b>	21	<b>21</b> (7 = carryover from 2005; 14 = 2006)	17	17
<b>Private Sector PPERs</b>	1	<b>3</b> (2 = carryover from 2005; 1 = 2006)	3	3
<b>Real Time Evaluations</b>		<b>Project Monitoring and Management</b>	Effectiveness of Project Operations Quality Control/Systems Processes	TBD
<b>Technical Assistance Program Evaluation (TPER)</b>	Capacity Building to Support Decentralization in INO <sup>1</sup>		Poverty Monitoring	TBD
<b>Others</b>	ECG Activities  RETA for Selected Evaluation Studies for 2005  OED Follow-up Actions to Independent Assessment Panel Report  <b>Guidelines for Country Assistance Program Evaluations</b>  Guidelines for Project Performance Evaluation Reports	<b>ECG Activities</b>  <b>RETA for Selected Evaluation Studies for 2006</b>	ECG Activities  RETA for Selected Evaluation Studies for 2007	ECG Activities  RETA for Selected Evaluation Studies for 2008

Note: Items highlighted in bold are 2006 deliverables.

	2005	2006	2007	2008
	<p><b>Guidelines for Private Sector Operations Evaluations</b></p> <p>SSTA on Urban Sector Strategy and Operations</p> <p><b>TA 4581-PRC: Developing a Result-Based Monitoring and Evaluation System for Key Projects</b></p>	<p>Implementation of TA 4581-PRC: Developing a Result-Based Monitoring and Evaluation System for Key Projects</p>	<p>Implementation of TA 4581-PRC: Developing a Result-Based Monitoring and Evaluation System for Key Projects</p>	

ADTA = advisory technical assistance; AER = annual evaluation review; BAN = Bangladesh; BHU = Bhutan; CAPE = country assistance program evaluation; CARs = Central Asian Republics; DMC = developing member country; ECG = Evaluation Cooperation Group; GEF = Global Environment Facility; IND = India; INO = Indonesia; LAO = Lao People's Democratic Republic; NGO = nongovernment organization; PAK = Pakistan; PPER = project/program performance evaluation report; RETA = regional technical assistance; SAPE = sector assistance program evaluation; TA = technical assistance; TBD = to be determined; TPER = technical assistance performance evaluation report; UZB = Uzbekistan.

<sup>1</sup> Inputs for later broader evaluations other than CAPEs.

<sup>2</sup> Start may slip to 2007.

Note: Items highlighted in bold are 2006 deliverables.

**Sample of Project/Program Evaluation Reports for 2006**

	Loan	Ctry	Project Name	PCR Rating	PCR Circulation	Division
<b>A. Project Performance Evaluation Reports</b>						
1	1381	BAN	Small-scale Water Resources Development Sector Project	S	Jul-04	OED1
2	1402	SRI	Plantation Reform Project	S	Dec-04	OED1
3	1504	UZB	Rural Enterprise Development	S	Oct-03	OED1
4	1435	PHI	Rural Microenterprise Finance Project	HS	Feb-05	OED1
5	1339	INO	Capacity Building Project in the Water Resources Sector	S	Aug-05	OED1
6	1541/1542	KAZ	Basic Education Project	PS	Dec-03	OED1
7	1480/1481	IND	Private Sector Infrastructure Facility - ICICI	S	Sep-03	OED2
8	1633	KGZ	Flood Emergency Rehabilitation	S	Dec-03	OED2
	1714	TAJ	Emergency Flood Rehabilitation	S	Jun-04	OED2
9	1269	PHI	Municipal Water Supply or	S	Oct-03	OED2
	986	PHI	Angat Water Supply Optimization Project	PS	Oct-04	OED2
	1150	PHI	Manila South Water Distribution Project	US	Nov-04	OED2
	1379	PHI	Umiray-Angat Transbasin Project	S	Nov-04	OED2
10	1501	INO	Regional Development Account Project	US	Apr-05	OED2
11	1387	PRC	Hebei Expressway	HS	Dec-03	OED2
	1617	PRC	Hebei Roads Development Project <sup>a</sup>	HS	Jun-05	OED2
12	1470	PRC	Chongqing Expressway Project	S	Sep-04	OED2
	1638	PRC	Chengdu-Nanchong Expressway Project <sup>a</sup>	S	Dec-04	OED2
13	1298/	BAN	Jamuna Bridge	HS	Dec-00	OED2
	1478	BAN	Jamuna Bridge Access Roads Project	S	Aug-04	OED2
14	1641/	PRC	Changchun-Harbin Expressway Project (Hashuang Expressway)	S	Oct-04	OED2
	1642		Changchun-Harbin Expressway Project (Changyu Expressway)	S	Oct-04	OED2
<b>B. Program Performance Evaluation Reports</b>						
1	1506	IND	Gujarat Public Sector Resource Management Program	S	Dec-04	OED1
2	1675/1676-	INO	Health and Nutrition Sector Development Program	S	Jun-05	OED1
3	1507/1508	MON	Education Sector Development Program	HS	Dec-03	OED1
4	1618	INO	Financial Governance Reforms: Sector Development Program	S	Aug-04	OED2
5	1713	MON	Governance Reform Program	S	Dec-02	OED2
6	1733/1734	VIE	State-Owned Enterprise Reform and Corporate Governance Program	S	Dec-04	OED2
Can be brought forward:						
	1717	IND	Madhya Pradesh Public Resource Management Program	S	Dec-04	OED1

<sup>a</sup> Brought forward (started operations in December 2003).