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## Annual Report of the Development Effectiveness Committee

Pursuant to its terms of reference, the Development Effectiveness Committee is submitting the attached Annual report, covering the period August 2005 to December 2006, to the Chairman for circulation to the Board for consideration.

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Asian Development Bank

**Board of Directors  
Development Effectiveness Committee**

Annual Report

# Annual Report of the Development Effectiveness Committee

May 2007

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## EXECUTIVE SUMMARY

This annual report of the Development Effectiveness Committee (DEC) appraises the Board of DEC's adopted results framework; the committee's work since its last annual report; recommendations for action based on reviews of selected major studies reviewed by DEC and the annual evaluation reports for 2006; assessment of the performance of ADB's independent evaluation program and its future priorities; DEC's program of meetings for 2007; and works in progress on a systematic framework for assessing the development effectiveness of ADB and its assistance and on increasing the effectiveness of DEC.

**Results framework for DEC.** DEC's targeted impacts are: (i) greater Board focus on high priority development effectiveness/results issues, (ii) more systematic and timely Management action to improve development effectiveness/results of ADB and its operations; and (iii) strengthened ADB quality assurance processes. Toward these impacts, DEC would like its future outcomes to include full Board discussions of selected issues introduced by DEC into the Board's formal meeting agenda.

**DEC work from August 2005 to December 2006.** DEC held 16 formal meetings to review major reports by the Operations Evaluation Department (OED) and certain other institutional reports related to ADB's results agenda. These included the independent evaluations of ADB's environmental and involuntary resettlement safeguard policies; institutional strategies for the health and urban sectors; overall assistance programs to Indonesia, Lao PDR, and Uzbekistan; assistance programs for the social sectors in Pakistan and power sector in the Philippines; and special assistance in capacity development in Sri Lanka. DEC also considered a special evaluation study on pathways out of rural poverty and the effectiveness of poverty targeting, whose conclusions questioned current conventional views; and, as new ground, reports by the Strategy and Policy Department (SPD) on the progress of managing-for-development results in ADB and by the Regional and Sustainable development Department (RSDD) on progress in implementation of ADB's overarching poverty reduction strategy. DEC considers that the process it had espoused in the case of the safeguard policies—to allow time for prior independent evaluations to feed into Management reviews of the policies—yielded useful results and should be followed as good practice in future policy reviews.

**Review of selected major studies and annual evaluation reports.** Following its terms of reference, DEC discussed the major studies it selected for committee review and the two culminating annual reports prepared by OED as well as the Management responses to these. In reviewing *2006 Annual Evaluation Review* as presented to the committee, DEC took exception to a leap made between the preliminary analysis in the report, which pointed to the complexity of the relationships between variables and the claimed lack of correlation between many governance indicators and growth and/or poverty reduction, and the suggestion that the performance-based-allocation (PBA) formula for ADF be reconsidered. DEC cautioned that OED, in formulating its recommendations, should not "overreach" into policy direction for which the Board and Management were responsible. Following the DEC meeting, the report's main recommendations were reformulated to respond to DEC's reservations before the report was publicly disclosed. DEC broadly endorsed the substance of the final recommendations. At the same time, DEC assessed that a number of major recommendations DEC had made in the context of previous years' reviews remained unactioned.

In reviewing the second annual report, *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2005*, DEC placed high priority on the main recommendation that Management's Action Plan to Improve Loan and TA Portfolio Performance should be fully implemented. However, DEC thinks the action plan itself still needs

a strategic cohesion at the corporate level; it appears to represent more of an aggregation of separately planned initiatives. A key result area on which information is not yet available is measurable progress in the required shift in ADB organizational culture towards greater value and recognition of organized and individual efforts to improve quality at entry and quality of implementation.

DEC's recommendations for action based on its discussions of the selected major studies and the annual OED reports are summarized at the end of this executive summary.

**Operations evaluation in 2006 and future priorities.** DEC is satisfied that ADB's operations evaluation activities in 2006 were adequate and efficient, and so reports to the Board. However, there are areas for improvement. As reported to the Budget Review Committee in November 2006, OED was not able to fully deliver the volume of outputs planned under its original 2006 work program as approved by the Board. A contributing factor was the high vacancy rate in OED's international staff positions; also, more realistic schedules are needed. In the evaluations that DEC formally discussed, the committee could generally endorse the substance of OED's major conclusions and recommendations. At the same time, DEC also carefully considered the Management response to each evaluation and offered its guidance for moving forward when there was a significant difference in view between Management and OED.

OED's work program for 2007-2009, as endorsed by DEC after its priorities and further suggestions were taken into consideration, is aimed at continuing the progress made in recent years to allow for more strategically timed and better focused evaluation results to influence the most pressing Board and Management agenda. In response to DEC's urging, commencing in 2007 OED plans to invest more resources in knowledge management to do a better job of disseminating lessons from evaluations both within and outside ADB; OED also plans to develop measurable indicators for monitoring ADB's progress in becoming a learning organization.

Progress has been noted in the substance of Management's written responses to evaluation reports. The actions Management committed to in its formal responses to evaluation reports in 2006 were generally more specific and time-bound than in previous years. However, more needs to be done on the realization of actual action. DEC feels that further substantial progress is possible only if a formal process is established for holding Management accountable for implementing changes on which internal consensus is reached. DEC plans to initiate such a process in 2007.

**DEC Meeting Program for 2007.** The committee plans to hold 10 formal meetings in 2007. The targeted agenda and dates are given in an appendix.

**DEC works in progress.** The committee has initiated work on two fronts that it plans to continue in the coming year with the goal of obtaining the required feedback from the Board. Preliminary results on these initiatives are shared in two appendices. The first initiative is to develop a practical framework for assessing the development effectiveness of ADB and its assistance, in the form of a checklist of questions on which to base an initial assessment of development effectiveness when considering new operations, strategy, and policy proposals. When completed and after sufficient consultation with Board members, such a checklist could become useful as a reference tool for the Board.

The second initiative concerns how the DEC can be more effective in carrying out its mandate. In an appendix, the committee poses some specific questions on which the views of Board members will be systematically sought by a DEC subcommittee. There are questions of

both process (how DEC operates) and scope (what DEC should concern itself about). Following careful consideration of the views and suggestions received, DEC will propose to the Board appropriate adjustments in the committee's terms of reference

### **Recommendations for Board Approval**

DEC recommends that, in the absence of objection in the Board:

- (i) this DEC annual report be publicly disclosed after its consideration by the Board;
- and (ii) a subcommittee of DEC initiate meetings with each Board constituency office to discuss specific views and suggestions for increasing DEC's effectiveness.

### **Key Recommendations for ADB Action**

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

- (i) ADB country partnership strategies include sections explaining how strategies are translated into operational programs and how lessons from past portfolio performance, country assistance program evaluations (CAPEs) and DEC recommendations are taken into account;
- (ii) preparation of a country assistance program evaluation (CAPE) should include seeking government's specific views on how ADB could become a more relevant development partner and that a section summarizing these views be a focal point in the CAPE;
- (iii) the revised safeguard policies be based on a new business model incorporating a better balance between the dual objectives of compliance in ADB projects and achievement of positive overall results at the national level; incorporate an implementation approach that distinguishes between medium-term steps/milestones and desired long-term standards; and define a practical and agreed framework for stakeholder collaboration in applying safeguards to achieve sustainable results, with the objective of ultimately relying on the country system;
- (iv) all new policy and strategy proposals or reviews submitted to the Board fully, explicitly and realistically consider the staff resources required for their implementation;
- (v) a staff working group should start the work of redefining the role of agriculture and rural development in poverty reduction;
- (vi) an issues paper be prepared by staff, to be considered by DEC in parallel with Management, regarding which ADB document should be used as the annual report on ADB's development and institutional effectiveness in the context of a more rational and efficient corporate reporting system;
- (vii) a comprehensive review of ADB's human resource strategy by an independent external body be undertaken;
- (viii) Management act on two past DEC recommendations on which action remains unrealized: (a) as an initial step in measuring ADB development results, pilot test aggregate ADB output reporting for selected sectors; and (b) build flexibility in budget and staff resource allocation to project supervision; and
- (ix) brief periodic updates be provided to DEC by Management on the progress in implementation of the Action Plan to Improve Loan and TA Portfolio Performance to supplement a more comprehensive full-year report to the Board, which should be the subject of a full Board discussion.

## 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 of ensuring that the programs and operations of the Asian Development Bank (ADB) achieve development effectiveness. Its current terms of reference (Appendix 1) specify that such development effectiveness (i) may be considered to be achieved if ADB's programs and operations result in the outcomes targeted in ADB's policies and strategies and make efficient use of ADB's resources, and (ii) is continuously assessed through ADB's operations evaluation program.

### A. Objectives of DEC Annual Report

2. By its current terms of reference, the DEC is expected to report to the Board its assessment of the adequacy and efficiency of ADB's program of independent evaluation of policies, strategies, and completed operations. In addition, 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 implementation. DEC is mandated to report to the Board on specific development effectiveness issues that have a significant bearing towards the achievement of ADB's overarching goal of poverty reduction and make recommendations to the Board on such issues.

3. In order to meet these expectations comprehensively, DEC's annual report this year comprises sections designed to apprise the Board of:

- the committee's adopted results framework;
- its work since its last annual report;
- DEC recommendations for action based on reviews of selected major studies;
- DEC recommendations for action based on its review of the annual evaluation reports for 2006;
- DEC's assessment of the performance of ADB's independent evaluation program and its future priorities; and
- DEC's program of meetings in 2007.

4. In special appendices to the report, the committee also summarizes two works in progress that it would like to engage the Board on in the near future:

- accumulated DEC insights on a practical framework by which to assess key issues of ADB's development effectiveness; and
- emerging questions for Board consideration on increasing the effectiveness of DEC.

5. Recommendation for Public Disclosure. 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. Accordingly, DEC recommends Board approval of public disclosure of this annual report after its consideration by the Board.

### B. A Results Framework for DEC

6. Ideally, DEC's terms of reference should be articulated in terms of a managing-for-development-results (MfDR) framework that forms an integral part of ADB's overall MfDR agenda. Pending a revisit of its terms of reference, DEC proposes adopting a results framework

for its work alongside, and consistent with, its formal terms of reference. Such a working framework explicitly recognizes DEC's core client to be the Board of Directors. Through the Board, DEC also aspires to engage in constructive discourse with ADB Management, ADB staff, and its counterpart board committees in other MDBs.

7. DEC Impacts. DEC's ultimate objective is to contribute to improved effectiveness of ADB's policy, program and project outcomes. Toward these long-term results, the DEC's intermediate impacts are envisioned as:

- increased Board focus on high priority development effectiveness/results issues;
- more systematic and timely Management action to improve development effectiveness/results of ADB and its operations; and
- strengthened quality assurance processes in ADB.

8. DEC Outcomes. To achieve these impacts, the following tangible committee outcomes are targeted:

- Board satisfaction with and approval of the annual OED work program and budget;
- Board assurance that the results of evaluation activities are significant;
- Management commitments to action in response to DEC and OED recommendations;
- DEC conclusions strategically and effectively fed into and used in Board discussions of related ADB policy and strategy proposals;
- formal Board consideration of selected development effectiveness issues placed by DEC on the Board agenda and Board endorsement of DEC recommendations on these issues;
- constructive stakeholder feedback on development effectiveness issues, emanating from effective public disclosure and dissemination of DEC thinking and recommendations; and
- Board satisfaction with and approval of DEC and the President's joint nominee for the director general of OED.

9. DEC Outputs. DEC's specific and time-bound outputs consist of its publicly disclosed conclusions and recommendations as result of its primary activity, its program of meetings. DEC meetings are programmed to progressively focus on the highest priority development effectiveness issues affecting ADB operations in the medium term, through discussions of independent evaluations by OED as well as Management reviews of policies, strategies, and ADB's reform agenda.

### **C. DEC Composition and Agenda in the Period August 2005 to December 2006**

10. During the entire period covered by this annual report, August 2005 to December 2006, the DEC was composed of<sup>1</sup>:

Agus Haryanto, Chair  
Emile Gauvreau  
Richard Moore  
David Taylor  
Nima Wangdi  
Xiaosong Zheng

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<sup>1</sup> DEC was supported in its work by Edgardo P, Rodriguez, Principal Evaluation Specialist (Development Effectiveness), OED, acting as executive secretary for the committee.

11. While the number of DEC meetings per calendar year had remained at around eight per calendar year since the committee was established in 2001, this increased to 11 in 2006, reflecting a conscious intensification in DEC work. There has also been a decisive and strategic shift in the profile of DEC's meeting agenda from the project level to sector, country, and policy levels as shown in the Table 1.

**Table 1: Development Effectiveness Committee (DEC)**  
Number and Agenda of Meetings, 2001–2006

<u>Number of Meetings</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	8	7	8	8	8	11
<u>Agenda Items<sup>1</sup></u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
PPAR/TPAR	4	6	5	4	0	2
SES/IES	3	3	3	4	4	5
CAPE/SAPE	0	1	2	4	6	3
AR	2	2	2	2	2	2
Other	5	2	3	4	8	5
Total	14	14	15	18	20	17

<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.

12. In the 15-month period covered by this annual report (15 August 2005 to 31 December 2006), there were 16 formal meetings held by the DEC covering a selection of evaluations that the committee considered to be of highest priority to ADB's medium term agenda. (A complete listing is given in Appendix 2.) Thus, DEC focused its attention on the independent evaluations of ADB's: **safeguard policies** on the environment and involuntary resettlement; **health sector strategy** and **urban sector strategy** and their implementation; country assistance programs for **Indonesia, Lao PDR, and Uzbekistan**; sector assistance programs for the **social sectors in Pakistan** and **power sector in the Philippines**; and special assistance in **capacity development in Sri Lanka**. DEC also took a special interest in the evaluation study on **pathways out of rural poverty and the effectiveness of poverty targeting** because it stimulated an important debate on conventional, business-as-usual views on these issues. As an exception to the generally broad nature of evaluations selected for discussion, DEC also reviewed the individual performance evaluation of ADB's **financial sector program loan to Korea**, made at the wake of the Asian financial crisis, because of the unprecedented large size of that loan. On the other hand, though DEC would normally review all evaluations of ADB policies, DEC did not see the need for a DEC discussion of the evaluation of the fisheries policy but it recommended that the study be considered an important input to formulation of ADB's medium term strategy for 2006-2008, in which sector priorities were to be assessed.

13. It is also in the period covered by this annual report that the DEC initiated discussion of major ADB reports on development effectiveness that were prepared by departments *other than OED*, specifically: (i) biannual reports by the Strategy and Policy Department (SPD) on the **progress of managing-for-development-results (MfDR) in ADB**, and (ii) the annual report by

the Regional and Sustainable Department (RSDD) on **implementation of ADB's poverty reduction strategy**. These new developments are further discussed below.

14. **Establishing good practice: the case of ADB's safeguard policies.** In November 2005, in the process of reviewing the proposed OED work program for 2006-2008, DEC recommended that an independent evaluation by OED precede Management's planned review of ADB's safeguard policies. OED had originally proposed evaluation of the safeguard policies in 2008, after updates of the policies had been considered by the Board in 2006. DEC argued that the value and impact of independent evaluation would be greater *before* rather than after Management review of the policies. The findings of the evaluations could thus be fed into the Management review and the Board's consideration of updated or revised policies.

15. Furthermore, DEC recommended that sufficient time be allowed between completion of the evaluations and preparation of the Board W-paper (the working paper to be discussed by the Board, after being posted on the ADB website for public consultation for a 90 day period, and before a final policy paper with Management's recommendations, or R-paper, is considered by the Board). This way, an effective feedback process involving further consultation could take place. It was likely that some fundamental issues would be identified in the consultation process and through the evaluation that would require more than a "fine tuning" of the policies. At the same time, Board consideration of Management proposals for safeguard policy revisions should not be delayed beyond 2007 given their importance to ADB operations. Management agreed with DEC's recommended approach and OED advanced its planned evaluations of the safeguard policies to 2006.

16. Based on its review of the completed OED reports, DEC considers that the process it had recommended—to allow time for independent evaluations to feed into Management reviews of the policies—had yielded useful results: it raised many of the right questions for the Management reviews; the issues identified and recommendations made addressed not only implementation of the policies but also provisions in the policies themselves; and, with its responses to the evaluations, Management had started the critical corporate-level dialogue leading to the policy reviews. Thus DEC considers that a useful practice in the institutional learning process had been established.

## II. RECOMMENDATIONS BASED ON REVIEWS OF SELECTED MAJOR STUDIES

17. At its meetings on the major studies it selected for formal review, DEC deliberated and gave its views on the conclusions and recommendations of each report and on the respective Management responses. These views, including any reservations the committee may have had on a report's conclusions or recommendations, were summarized in Chair's summaries of discussion separately circulated and publicly disclosed following the respective meetings. At the same time, DEC made its own additional recommendations for action based on the discussions. These DEC recommendations were also separately put forward in the individual Chair's summaries. In order to ensure that they are addressed comprehensively and systematically, these DEC recommendations are conveyed to ADB Board and Management in consolidation through this annual report, below, with a formal request that the appropriate actions be taken on them.

18. **Introduction of improvements in country partnership strategy papers.** From its reviews of country assistance program evaluations (CAPEs), starting with the CAPE for Uzbekistan in early 2006, DEC has recommended that ensuing country partnership strategies (CPSs) include:

- a section explaining specifically how the partnership strategy has been translated into an operational program, so that the linkage is clear;
- a section explaining how lessons learned from past portfolio performance are taken into account in the CPS; and
- a section documenting the recommendations of the preceding CAPE and the DEC's recommendations on these, and explaining how the CAPE and DEC recommendations are taken into account in the CPS.

DEC appreciates that an operational business plan now forms part of the CPS process, a step DEC had looked forward to. Such a business plan should include ADB's strategy for dealing with the risks specified in the CPS framework.

19. **Documentation of the government's views in CAPEs.** The section initiated by OED in the CAPE for Indonesia, which reported specific views obtained from Government on how ADB could become a more relevant development partner, was considered by DEC to be a welcome focal point of the evaluation. DEC recommended that such a section be replicated in other CAPEs.

20. **Results orientation in implementation of safeguard policies.** DEC has recommended that the revised safeguard policies be based on a new business model incorporating a better balance between the dual objectives of compliance in ADB projects and achievement of positive overall results at the national level. DEC has also recommended incorporation of an implementation approach that distinguishes between medium-term steps/milestones and the desired long-term standards. This way, a progressive achievement of sustainable results becomes more realistic for ADB, given its resource constraints, and for the country, given resource and capacity constraints. For instance, in reviewing the evaluation of the safeguard policy on involuntary resettlement, DEC members shared a view that while the policy should correctly set high standards, its application in country and project specific contexts involves a complicated social process that requires time and common sense, and by which standards and results may be achievable only in a progressive manner. This means that the policy is not necessarily compromised by an approach that explicitly follows a roadmap with progressive milestones that, in the medium term, leads to satisfactory results for affected persons. Finally, DEC has recommended that the updated policies define a practical and agreed framework for stakeholder collaboration in applying safeguards to achieve optimum, sustainable results, with the objective of ultimately relying on the country system since the primary responsibility for achieving the desired results rests with the country.

21. **Up-front consideration of staff resource requirements for implementation of new or revised policies and strategies.** One after another, independent evaluations reviewed by DEC have repeatedly highlighted systemic inconsistencies between the staff resources required to make good on ADB policies, strategies, and commitments to quality and results and the actual resources made available to the responsible organizational units. In the review period covered by this annual report, serious staffing gaps demanding Management attention have been brought out in the *Annual Report on Loan and TA Portfolio Performance* (including the issue of under-staffed private sector operations); the *Annual Evaluation Review*; and the special evaluations of the policies on *safeguards* and *health sector* and the *urban sector* strategy and operations. More recently, the same binding staff constraints have been diagnosed in the special evaluation of TA effectiveness. Accordingly, DEC has recommended that all new policy and strategy proposals or reviews submitted to the Board should fully, explicitly and realistically address the staff resource issue.

22. **Redefinition of the role of agriculture and rural development in poverty reduction.** Following its review of the conclusions of the special evaluation study, *Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting*, DEC recommended that, as the next concrete step, a staff working group should already start the work of redefining the role of agriculture and rural development in poverty reduction. The output of the working group would be an input to the review of ADB's long term strategic framework.

23. **Annual performance assessment of ADB.** In March 2006, when DEC discussed the 2004 Annual Poverty Reduction Report - the first such annual report - Management had suggested that the report could evolve into ADB's corporate report on development effectiveness since, after all, poverty reduction was ADB's overarching objective and the report introduced a "results framework for an annual assessment of institutional performance". DEC considered that it needed to review this idea further and that the importance of the report might justify full Board discussion of it. There was also a question of overlap or duplication among a number of documents all reporting on ADB's overall institutional performance. For instance: OED's 2005 annual evaluation review had initially been titled "Annual Review of Development Results" since that was intended to be the future course of the report; the Strategy and Policy Department reports on how ADB is progressing in managing for development results; and the Economics and Research Department also makes assessments of overall ADB performance. At the same time, many Board members would like to see ADB's Annual Report to the Board of Governors become the ultimate institutional report-card on results. DEC recommended that an issues paper be prepared by staff, to be considered by DEC in parallel with Management, on which ADB document should be used as the annual report on ADB's development and institutional effectiveness in the context of a more rational and efficient corporate reporting system

### III. RECOMMENDATIONS BASED ON REVIEW OF THE ANNUAL EVALUATION REPORTS

24. Following its terms of reference, DEC has reviewed the two culminating annual reports prepared by the Operations Evaluation Department (OED): (i) *2006 Annual Evaluation Review*, and (ii) *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2005*. The DEC's key views, conclusions, and recommendations are reported below together with follow-up actions that ADB Management is requested, through the Chairman of the Board, to address.

#### A. 2006 Annual Evaluation Review

25. The original report submitted by OED to DEC in July 2006 made two main recommendations: (i) to undertake a rigorous analysis particularly of the high weight given to governance variables in the current performance-based allocation (PBA) formula in the context of the upcoming midterm review of ADF IX implementation; and (ii) to study the feasibility of providing stronger incentives for staff, through the staff performance appraisal system, to focus on achieving better development results of projects (instead of only loan approvals) through quality at entry and supervision.

26. In the case of the first recommendation, DEC took exception to the leap made between the preliminary analysis in the report, which pointed to the complexity of the relationships between variables and the claimed lack of correlation between many governance indicators and growth and/or poverty reduction, and the suggestion that the PBA formula be reconsidered. DEC cautioned that OED, in formulating its recommendations, should not "overreach" into policy

direction for which the Board and Management were responsible. OED should pose questions—including difficult ones, gather information, and present analysis and findings but it should not make categorical policy recommendations. DEC also felt strongly that the recommendations did not adequately address the two objectives set out for the report, objectives that DEC agreed with: to identify key factors that influence project success and to assess the impact of OED on ADB operations.

27. Following the DEC meeting and before a final report was publicly disclosed in September 2006, the report's main recommendations were revised by OED to respond to DEC's reservations. As they now stand, the recommendations made in the Annual Evaluation Review are:

- (i) OED should undertake further work to identify factors that influence project success and ultimately country outcomes;
- (ii) SPD should undertake a rigorous analysis to test whether good governance is the key binding constraint for development in all DMCs and is a causal factor for good economic performance, reducing poverty, achieving other development results, good portfolio performance, or project success;
- (iii) BPMSD should undertake a study to explore the feasibility of strengthening ADB's staff performance appraisal systems to provide stronger incentives to focus on project quality at entry and project supervision to encourage achieving better development results from ADB operations; and
- (iv) OED should lead more concerted efforts to make ADB a learning organization in terms of using evaluation findings to improve the design of future operations.

28. **DEC can broadly endorse recommendations (i), (ii), and (iv) as reformulated. In regard to recommendation (iii), however, DEC recommends that a more comprehensive review of ADB's human resource strategy by an independent external body is needed.** It is noted that a similar call was made by a large number of ADF deputies during the ADF Midterm Review meeting in Frankfurt.

29. **Recommended follow-up actions.** Based on the latest OED report, DEC informs the Board that actions by ADB remain unrealized on the following recommendations made by DEC in its previous annual reports:

- (i) **Measurement of development results: pilot testing of aggregate ADB output reporting for selected sectors.** In 2004, upon reviewing the annual report on loan and TA portfolio performance as of December 2003, DEC had 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 relatively unreliable ratings in project performance reports or PPRs) to measure portfolio performance" and as a first step in measuring and reporting on ADB's development results. ***To date, no action has been taken on this 2004 recommendation, a condition that DEC considers highly unsatisfactory.***
- (ii) **Flexibility in budget and staff allocation to project supervision.** Also in 2004, DEC had placed high priority on the recommendation that more flexibility should be built into budget and staff resource reallocation, both within and across departments, so that project supervision, particularly of projects flagged as being at risk, received adequate attention. In 2005 it was again reported that there had

been a steadily declining trend in the number of projects reviewed each year—during 2004, up to 20% of projects and 75% of TAs had not been reviewed in the field and the time spent by international professional staff on supervision missions had also decreased. The year 2005 saw the second lowest number of loan supervision missions and the second lowest number of projects reviewed during the eight years from 1998 to 2005. The total number of person-days on mission during 2005 was just below the average for the past 8 years. For TAs, only 18% of ongoing TAs had review missions and only 30% of newly approved TAs had inception missions. DEC recognizes that for projects delegated to resident missions (RMs), some of the review activities conducted by the RM staff might have been missed in the analysis and OED findings indicate that, according to executing agencies, projects delegated to RMs are more closely supervised than projects administered from Manila. **Nevertheless, systematic action on the DEC's 2004 recommendation is considered to remain unsatisfactory.**

30. DEC will also closely monitor actions underway on three other recommendations in 2004 that DEC considered to be of high priority:

- (i) **Making project readiness criteria mandatory.** This is now part of the Action Plan to Improve Loan and TA Portfolio Performance, which was launched by Management in November 2005 in response to DEC's recommendation based on its review of the 2005 annual report on portfolio performance.
- (ii) **Assessing development effectiveness in private sector operations.** DEC understands that OED and PSOD are jointly developing guidelines for measures of development effectiveness to be specified in project design, monitored during implementation, and assessed at evaluation. After modest steps forward reported early in 2006, DEC has not been informed of, *nor seen*, further progress.
- (iii) **Using critical path analysis in project preparation and implementation.** This also is now part of Management's Action Plan to Improve Loan and TA Portfolio Performance.

31. In its 2005 Annual Report, the DEC made four new recommendations to ADB through the Board, namely that:

- (i) a system be put in place to monitor actions on annual DEC recommendations;
- (ii) Management develop a comprehensive action plan, to be discussed by 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 portion of the Annual Evaluation Review on follow-up actions on OED recommendations be elevated to a separate chapter and a system be established for monitoring the cumulative progress of actions on OED recommendations; and
- (iv) periodic reporting to DEC on the progress in implementation of MfDR in ADB be undertaken by SPD, on behalf of Management.

32. DEC considers that actions taken on its 2005 recommendations are satisfactory with one exception: **DEC's recommendation that the Action Plan to improve portfolio performance be discussed by the full Board has not yet been satisfied.** As an interim measure, in August 2006 DEC discussed a preliminary report to Management that took stock of initial progress in

implementing the action plan. Also, although DEC has been informed that development of the monitoring system (recommendation [i]) was initiated by the office of the Managing Director General in 2006, DEC has not yet seen the results.

## **B. Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2005**

33. DEC fully endorses and places high priority on the main recommendation in this year's annual report on portfolio performance: that Management's Action Plan to Improve Loan and TA Portfolio Performance should be **fully implemented**. While the action plan as proposed covers reasonable ground, DEC thinks it lacks a strategic cohesion at the corporate level and appears to represent more of an aggregation of separately planned initiatives. One key result area on which information is not yet available is progress in the shift required in organizational culture, towards greater value and recognition of organized and individual efforts to improve quality at entry and quality of implementation.

34. DEC has the following specific concerns:

- (i) On improving the strategic application of TA resources, DEC considers that the Action Plan is over-preoccupied with simply cutting down the number of new TA approvals and reducing the portfolio. Cutting down will not solve the problem. Rather, the focus should be on significantly improving the *results* of ADB's technical assistance, with or without cuts in the total volume. Results will be improved if TA becomes more demand driven. For TA to become more demand driven, it cannot be completely pre-programmed but must be flexible enough to respond to unanticipated changes in DMC needs.
- (ii) The disbursement picture continues to look unsupportive of improvements in development effectiveness.
- (iii) The review of the Private Sector Development Strategy cannot skirt the issue of adequate staffing of PSOD.
- (iv) Measures in the Action Plan to address the loan approval bunching issue should be redirected toward the more meaningful goal of improving the quality of loan proposals. Bunching *per se* is no longer viewed as a binding constraint on improvement of development effectiveness.

35. **Recommended follow-up action.** Given the importance the Board is expected to place on full implementation of the Action Plan, DEC has recommended brief periodic updates by Management on progress during the year to supplement a more comprehensive full-year report to the Board, which should be the subject of a full Board discussion.

## **IV. OVERALL ASSESSMENT OF OPERATIONS EVALUATION IN 2006 AND FUTURE PRIORITIES FOR EVALUATION**

36. The DEC is satisfied that ADB's operations evaluation activities in 2006 were adequate and efficient, and so reports to the Board. However, there are areas for improvement that are noted below.

## **A. Performance of OED in 2006**

37. As reported at the Budget Review Committee Meeting on 8 November 2006, OED was not able to fully deliver the volume of outputs planned under the original 2006 Work Program approved by the Board in November 2005. Although OED output increased from 35 completed and 16 ongoing products in 2005 to 42 completed and 32 ongoing in 2006, this was still below the target. This reflected the high vacancy rate in OED's international staff positions (an average of 27%, or 6 out of 22 positions). While staff vacancies were a contributing factor, more attention is needed to developing realistic implementation schedules.

38. Of 24 individual project/program performance evaluations programmed in 2006, 22 were delivered, including 3 involving private sector operations; and both TA cluster evaluations in the program were accomplished. However, of the 16 major special evaluation studies originally targeted for delivery in 2006, several could not be completed on time and are now due for delivery in 2007: (i) effectiveness of TA operations, (ii) capital market assistance, (iii) private sector operations, (iv) ADB's energy policy, (v) microcredit operations, (vi) effectiveness of ADB operations in support of capacity development; (vii) country assistance program evaluation for Pakistan; and (viii) sector program assistance evaluations on the roads and energy sectors in India. Initially one evaluation covering ADB's three safeguard policies was planned. However because of the many issues involved and complexity of the topic, during the year it was decided to produce separate reports for the environment, resettlement, and indigenous peoples safeguard policies. The environment and resettlement safeguard evaluations were delivered in 2006 and the indigenous peoples safeguard evaluation was completed in early 2007.

39. In the evaluations that DEC formally discussed, the committee could generally endorse the substance of OED's major conclusions and recommendations. At the same time, DEC also carefully considered the Management response to each evaluation and offered its guidance for moving forward when there was a significant difference in view between Management and OED. The DEC believes that a DEC meeting, if it is to add value to the learning process, is not the appropriate mechanism for reconciling divergent, internal ADB views but should instead provide the platform for moving ahead with concrete action proposals on the improvements considered acceptable and feasible by Management, while also identifying issues that need further thinking and debate. For instance, in discussing the evaluation of ADB assistance to the social sectors in Pakistan, a case in which the divergence of Management's views was particularly strong, DEC emphasized its appreciation that at the end of the process staff and management were able to take a constructive approach in responding to the OED recommendations. DEC also welcomed OED's commitment to future efforts for more extensive dialogue with stakeholders from the start not only toward the end of an evaluation. In the same context, DEC reminded OED that, while government is an ultimate user of evaluation findings, an evaluation report's recommendation for government action is not binding and should be treated only as a suggestion for further government consideration subject to appropriateness and feasibility. This was a sensitive issue.

40. Following OED's adopted guidelines on avoiding conflict of interest in independent evaluations, in 2006 the Director General recused himself from parts or the whole of the review and approval process in the case of two special evaluation studies, five project performance evaluations, one TA performance evaluation, one country assistance program evaluation, and one sector assistance program evaluation.

## B. Future Priorities for Evaluation

41. OED's work program for 2007–2009 (Appendix 3), as endorsed by DEC after the committee's views and further suggestions were taken into consideration, is aimed at continuing the progress made in recent years to allow for more strategically timed and better focused evaluation results to influence the most pressing Board and Management agenda. In its oversight function, DEC has pushed strongly and consistently to make OED findings clearer, more action oriented, and more accessible. DEC has proposed creating new information products and new methods of dissemination to address the major issue that ADB is no yet a learning organization that systematically uses lessons from independent evaluations to improve future operations. Commencing in 2007, OED plans to invest more resources in knowledge management to distill more specific lessons and do a better job of disseminating these within and outside ADB; OED also plans to develop measurable indicators for monitoring ADB's progress in becoming a learning organization. On its part, the DEC needs to increase its interaction with the full Board on the most pressing development effectiveness issues.

42. Combined with the evaluation reports that were initiated in 2006, a total of 47 reports are programmed to be delivered in 2007. In addition to its reports, OED plans to initiate in 2007 a program of desk reviews to validate all project/program completion report (PCR) ratings in the self-evaluations by operations departments, to replace the previous OED approach of commenting on selected draft PCRs. In 2007, OED will also begin validating the completion reports prepared for country strategies.

## C. Management Response and Action Process

43. In its annual report circulated on 31 October 2005, DEC devoted its theme section, *Improving ADB's Process of Taking Action on Lessons from Independent Evaluation*, to an assessment of how ADB's institutional learning and change management process could be improved and how DEC's contribution toward such improvement could be enhanced. OED has acted on some specific DEC recommendations:

- (i) Traditionally, the intended end-users were consulted during and near the completion of an evaluation. Now OED reviews the scope and methodology with the main stakeholders, particularly the ADB operations department and government, *before* starting; and
- (ii) OED has introduced the new step of discussing draft evaluation recommendations with ADB operational management and, in the case of country assistance program evaluations, with DMC officials before the evaluations are finalized. The objective is to ensure that those who will be responsible for implementing the recommendations understand them, to find out which are acceptable and feasible, and to build early commitment.

44. Some progress has also been noted in the substance of Management's written responses to evaluation reports; the actions Management committed to in its formal responses to evaluation reports in 2006 were generally more specific and time-bound than in previous years. However, much more needs to be done on the timely realization of actual action.

45. DEC feels that further substantial progress is possible only if a *formal* process is established for holding Management accountable for implementing changes on which internal consensus is reached. DEC plans to initiate such a system in 2007 by having the DEC Chair issue a concise and specific memorandum to Management through the Chair of the Board, after

each DEC meeting, informing Management of the specific recommendations for action made by DEC. Management would then be expected to respond formally and to specify the actions it decides to commit itself to. The substance of the internal memorandum from DEC to Management would also form part of the more comprehensive DEC Chair's Summary that is circulated to the Board and publicly disclosed following a DEC meeting.

46. DEC appreciated the regular attendance of the Managing Director General at DEC meetings starting in November 2005, to represent ADB Management. DEC would welcome regular participation by Vice-Presidents as appropriate.

## V. COMMITTEE MEETING PROGRAM FOR 2007 AND WORK-IN-PROGRESS ON THE WAY FORWARD

### A. DEC Meeting Program for 2007

47. The committee's planned program of 10 formal meetings in 2007, including the targeted agenda and indicative dates, is given in **Appendix 4**.

### B. Improving ADB's Development Effectiveness

48. In the course of its deliberations, DEC has learned to consider certain sets of development effectiveness issues as pointing to the most critical and actionable areas for improvement. DEC members, collectively or individually, have also found it useful to distinguish, in this framework, two categories of issues: (a) those affecting the effectiveness of ADB assistance to its DMCs, and (b) those of ADB's own effectiveness as an institution. Under the first category, the specific questions thus far tend to cluster around three key considerations:

- (i) Does the proposed assistance focus on results?
- (ii) Has country ownership been tested or programmed?
- (iii) Has the proposed assistance been designed in collaboration with key development partners?

49. Under the second category on assessing *ADB's effectiveness as an institution*, the DEC's list of questions and views are organized in the following three areas:

- (i) Is there consistency and synergy across ADB policies and strategies, old and new?
- (ii) Is managing-for-development-results (MfDR) practiced as an ADB Management approach to decision making?
- (iii) Is effective ADB human resource management integrated in the proposal?

50. In this context, **Appendix 5** outlines an initial checklist of critical success factors that are considered to reflect necessary (though not sufficient) conditions for development effectiveness. These are formulated as key questions to be asked in making an initial assessment of the development effectiveness of new loan, TA, strategy, and policy proposals. It is a work-in-progress in DEC's agenda. After further examination, deliberation, and sufficient consultation with all Board members on its usefulness as a reference tool for the Board, such a "development effectiveness checklist" could be considered for inclusion as a reference in the DEC section of [adb.org](http://adb.org) as well as in the newly launched Evaluation Information System.

### C. Increasing DEC's Effectiveness as a Board Committee

51. Under the results framework it proposes to adopt for its work (section I.B above), the DEC has two major concerns as a Board committee: (i) the extent to which the Board uses the committee's findings; and (ii) the extent to which DEC is able to influence Management to improve the development effectiveness of ADB's operations. DEC feels strongly that it can be more effective by strengthening its program and interactions. Accordingly, in **Appendix 6**, the committee poses specific questions on which Board feedback will be used to move forward. There are questions of *process* (how DEC operates; e.g., should DEC initiate a practice of reviewing Management policy/strategy proposals that are directly relevant to development effectiveness issues *before* full Board discussion of such proposals?); and *scope* (what DEC should concern itself with; e.g., does DEC have the mandate to engage Management on issues of development results beyond OED's work program?). Following careful consideration of the views and suggestions received from Board members, DEC will propose to the Board appropriate adjustments in the committee's terms of reference (TOR).

52. There are also *de facto* reasons for updating DEC's TOR: (i) the provision in the current TOR that DEC should "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" has been overtaken by the new Public Communications Policy that requires OED reports to be publicly disclosed upon circulation to the Board and Management; and (ii) while the current TOR is formulated such that DEC's scope of business is operations evaluation and its main interaction is with OED, DEC is already reviewing reports other than evaluations by OED (see para. 13 and Appendix 6).

53. As the term of the OED Director General expires in October 2007, DEC also needs to make a recommendation to the President on the steps for Board selection of a new Director General or the extension of the incumbent

## VI. SUMMARY OF SPECIFIC RECOMMENDATIONS FOR ACTION

### A. Recommendations for Board Approval

54. DEC recommends that, in the absence of objection in the Board:

- (i) this DEC annual report be publicly disclosed after its consideration by the Board (**para. 5**); and
- (ii) a subcommittee of DEC initiate meetings with each Board constituency office to discuss specific views and suggestions for increasing DEC's effectiveness (**para. 51**).

### B. Key Recommendations for ADB Action

55. DEC specifically recommends to ADB, through the Board, that:

- (i) ADB country partnership strategies include sections explaining how strategies are translated into operational programs and how lessons from past portfolio performance, country assistance program evaluations (CAPEs) and DEC recommendations are taken into account (**para. 18**);
- (ii) preparation of a country assistance program evaluation (CAPE) should include seeking government's specific views on how ADB could become a more relevant

- development partner and that a section summarizing these views be a focal point in the CAPE (**para. 19**);
- (iii) the revised safeguard policies be based on a new business model incorporating a better balance between the dual objectives of compliance in ADB projects and achievement of positive overall results at the national level; incorporate an implementation approach that distinguishes between medium-term steps/milestones and desired long-term standards; and define a practical and agreed framework for stakeholder collaboration in applying safeguards to achieve sustainable results, with the objective of ultimately relying on the country system (**para. 20**);
  - (iv) all new policy and strategy proposals or reviews submitted to the Board fully, explicitly and realistically consider the staff resources required for their implementation (**para. 21**);
  - (v) a staff working group should start the work of redefining the role of agriculture and rural development in poverty reduction (**para. 22**);
  - (vi) an issues paper be prepared by staff, to be considered by DEC in parallel with Management, regarding which ADB document should be used as the annual report on ADB's development and institutional effectiveness in the context of a more rational and efficient corporate reporting system (**para. 23**);
  - (vii) a comprehensive review of ADB's human resource strategy by an independent external body be undertaken (**para. 28**);
  - (viii) Management act on two past DEC recommendations on which action remains unrealized: (a) as an initial step in measuring ADB development results, pilot test aggregate ADB output reporting for selected sectors; and (b) build flexibility in budget and staff resource allocation to project supervision (**para. 29**); and
  - (ix) brief periodic updates be provided to DEC by Management on the progress in implementation of the Action Plan to Improve Loan and TA Portfolio Performance to supplement a more comprehensive full-year report to the Board, which should be the subject of a full Board discussion (**para. 35**)..

## **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  
BETWEEN 15 AUGUST 2005 AND 31 DECEMBER 2006**

Date	Agenda	Type of Study <sup>1</sup>
<b>2005</b>		
24 August	<ol style="list-style-type: none"> <li>1. ADB's Health Sector Policy</li> <li>2. Sector Assistance Program Evaluation on Social Sectors in Pakistan (<i>discussion started</i>)</li> </ol>	<p>SES SAPE</p>
1 September	<ol style="list-style-type: none"> <li>1. Sector Assistance Program Evaluation on Social Sectors in Pakistan (<i>discussion continued</i>)</li> <li>2. Committee Inputs to OED Work Program for 2006-2008</li> </ol>	SAPE
28 September	<ol style="list-style-type: none"> <li>1. Guidelines for the Preparation of Performance Evaluation Reports of Public Sector Operations</li> <li>2. Proposed OED Work Program for 2006-2008</li> </ol>	
28 October	<ol style="list-style-type: none"> <li>1. OED Budget for 2006</li> </ol>	
24 November	<ol style="list-style-type: none"> <li>1. Sector Assistance Program Evaluation of ADB Assistance to Philippines Power Sector</li> <li>2. Report on Managing for Development Results (MfDR) in ADB</li> </ol>	SAPE
<b>2006</b>		
10 February	<ol style="list-style-type: none"> <li>1. The Committee's Meeting Program for 2006</li> </ol>	
17 February	<ol style="list-style-type: none"> <li>1. Country Assistance Program Evaluation for Uzbekistan</li> </ol>	CAPE
15 March	<ol style="list-style-type: none"> <li>1. Country Assistance Program Evaluation for Indonesia</li> <li>2. Annual Report on the Implementation of the Poverty Reduction Strategy, 2004: An Assessment of the Asian Development Bank's Progress and Changes Introduced to Fight Poverty</li> </ol>	CAPE (Board Info Paper)
17 May	<ol style="list-style-type: none"> <li>1. Country Assistance Program Evaluation for Lao PDR <ul style="list-style-type: none"> <li>• Ref: SAPE for Agriculture and Natural Resources Sector in Lao PDR</li> <li>• Sub-item: Status of follow-up actions to recommendations in PPAR on Nam Leuk Hydropower Project</li> </ul> </li> <li>2. Key Issues Reviewed in the Program Performance Evaluation Report for Loan 1601-KOR: Financial Sector Program (FSP) and Project Performance Evaluation Report for Loan 1602-KOR: Institutional Strengthening of the FSP</li> </ol>	CAPE  PPER (Summary)
14 June	<ol style="list-style-type: none"> <li>1. Special Evaluation Study on Pathways Out of Rural Poverty and the effectiveness of Poverty Targeting</li> <li>2. Special Evaluation Study on Lessons in Capacity Development: Case Studies in Sri Lanka</li> </ol>	SES SES
26 July	<ol style="list-style-type: none"> <li>1. Special Evaluation Study on Urban Sector Strategy and Operations</li> <li>2. Second Progress Report on Managing for Development Results (MfDR) In ADB</li> </ol>	SES

<b>Date</b>	<b>Agenda</b>	<b>Type of Study<sup>1</sup></b>
23 August	1. 2006 Annual Evaluation Review (AER), including new full chapter on Actions Taken on DEC Recommendations and on Recommendations in OED Reports	AR
30 August	1. Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2005 2. Interim Stocktaking of Progress on Implementation of the Action Plan to Improve Loan and TA Portfolio Performance – Progress Report to Management	AR
27 September	1. Special Evaluation Study on Environmental Safeguards	SES
9 October	1. Special Evaluation Study on Involuntary Resettlement Safeguards	SES
19 October	1. Proposed OED Work Program for 2007–2009 2. Proposed OED Budget for 2007	

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

## OED WORK PROGRAM FOR 2007–2009

	2006 (only those for completion in 2007)	2007	2008	2009
<b>Annual Reports</b>				
1. Annual Evaluation Review (Theme Chapter)		1 (Capacity Building)	1 (Technical Assistance)	1 (Regional Cooperation and Integration)
2. Annual Review of Portfolio Performance		1	1	1
<b>Country Assistance Program Evaluations (CAPEs)</b>				
1. Full CAPEs	PAK IND PRC SRI		Regional CAPE - ADB Operations in the Pacific Region	BAN PHI VIE
2. CAPE Updates/Briefs			MON NEP PNG	BHU
<b>Sector Assistance Program Evaluations (SAPEs)</b>				
	Transport SAPE in IND Power Sector SAPE in IND Transport (Roads and Railways) SAPE in PRC	SAPE in BAN (TBD)	SAPE in VIE (TBD) SAPE in PHI (TBD) SAPE in BAN (TBD)	TBD sector/country CAPEs will determine SAPEs
<b>Special Evaluation Studies</b>				
A. Thematic	Capital Market Assistance Effectiveness of ADB's Operations in Support of Capacity Development	Evaluation of Japan Funds (JFPR, JSF and JSP) Achievements of ADB's Long-Term Strategic Framework ADB's Operations in Support of Law and Justice Reform	Evaluation of ADB's Support for Regional Cooperation and Integration ADB's Support for Public Financial Management and Public Sector Reform Infrastructure	Results from ADB's Water Policy Implementation Effectiveness of ADB Operations in Fragile States and Conflicted Areas Effectiveness of ADB's Approach to Roads Development

	<b>2006</b> (only those for completion in 2007)	<b>2007</b>	<b>2008</b>	<b>2009</b>
		<p><b>Assistance to Water Supply Sector in Metro Manila</b></p> <p>Evaluation of ADF VIII and IX Replenishments</p> <p>Evaluation of Special Purpose Funds (Non-Japanese)</p>	<p>Development and Trade in Greater Mekong Subregion</p> <p>Evaluation of ADB Support to the Development of Monitoring and Evaluation Systems and Capabilities in DMCs</p> <p>Infrastructure Development and Trade in Central Asia</p>	
B. Policies and Procedures	<p><b>Effectiveness of TA Operations</b></p> <p><b>Effectiveness of ADB's Approaches to Partnering and Harmonization</b></p> <p><b>Effect of Rural Finance and Microfinance in ADB Operations on Rural Households and the Status of Women</b></p> <p><b>Energy Policy</b></p> <p><b>Indigenous Peoples</b></p>	<p>Effectiveness of ADB's Resident Missions</p> <p>Effectiveness of Policy-Dialogue and Support for Policy Reforms<sup>2</sup></p>	<p>Assessment of ADB's Skills Mix and Use of Consultants</p>	<p>Implementation of ADB's Governance and Anti-Corruption Policies</p> <p>Effectiveness of ADB's Support for Decentralization</p> <p>Evaluation of ADB's Accountability Mechanism</p>
<b>Evaluation Briefs/ Notes</b>				
		<p>Assessment of the Managing for Development Results Agenda</p>		

<sup>2</sup> Covering ADB operations under Program Loan, Sector Development Program, Sector/Project Loan and Single Tranche modalities and related TAs and ESW.

	<b>2006</b> (only those for completion in 2007)	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Rigorous Impact Evaluations</b>				
		Education BAN	Irrigation (Country TBD)	Poverty (Country TBD )
<b>Real Time Evaluations</b>				
	<b>Assessment of Project Performance Report System</b>	<b>Assessment of DMF Quality</b> Effectiveness of Project Operations Quality Control/Systems Processes	Assessment of DMF Quality Assessment of the Innovation and Efficiency Initiative	Assessment of DMF Quality
<b>Public Sector Project Performance Evaluation Reports (PPERs)</b>				
		Purposeful sample of 10	Purposeful sample of 10	Purposeful sample of 10
<b>Private Sector Evaluations</b>				
	<b>Private Sector Operations</b>	<b>Funds</b>	Public/Private Partnerships for Infrastructure	Developing an Enabling Environment for the Private Sector
		Purposeful sample of 3 PPERs	Purposeful sample of 3 PPERs	Purposeful sample of 3 PPERs
<b>Technical Assistance Program Evaluation (TPER)</b>				
		Discontinued from 2007—TA assessments included under special studies		
<b>Project Completion Report (PCR) and Country Partnership Strategy Completion Report (CPR) Validation (new function from 2007)</b>				
		60 PCRs CPR for Maldives	60	60
<b>Knowledge Products</b>				
		<b>Evaluation Highlights Compendium of Lessons Report on Evaluation Findings for 40<sup>th</sup> Annual Meeting</b> Is ADB Becoming a	Evaluation Highlights Learning from Less Than Successful Projects Dissemination Activities (TBD)	Evaluation Highlights Compendium of Lessons Influential Evaluations Dissemination Activities (TBD)

	<b>2006</b> (only those for completion in 2007)	<b>2007</b>	<b>2008</b>	<b>2009</b>
		Learning Organization? Utilization of OED Findings  Dissemination Activities (TBD)		
<b>Document Commenting and Feeding Lessons Back</b>				
		PPTAs/RRPs/CSPs/PSOD MRM Policy papers	PPTAs/RRPs/CSPs/PSOD MRM Policy papers	PPTAs/RRPs/CSPs/PSOD MRM Policy papers
<b>Evaluation Capacity Development</b>				
	Implementation of TA 4581-PRC: Developing a Result-Based Monitoring and Evaluation System for Key Projects		RETA on DMC Evaluation Capacity Building	
<b>Others</b>				
		<b>ECG Activities</b> <b>RETA for Selected Evaluation Studies for 2007</b>	ECG Activities RETA for Selected Evaluation Studies for 2008	ECG Activities RETA for Selected Evaluation Studies for 2009

BAN = Bangladesh; BHU = Bhutan; CAREC = Central Asian Regional Cooperation; CPS = Country Partnership and Strategy; DMC = developing member country; DMF = design and monitoring framework; ECG = Evaluation Cooperation Group; ESW = economic and sector work; IND = India; JFPR = Japan Fund for Poverty Reduction; JSF = Japan Special Fund; JSP = Japan Scholarship Program; KAZ= Kazakhstan; KGZ= Kyrgyz Republic; MON= Mongolia; NEP = Nepal; MRM = management review meeting; PAK = Pakistan; PHI = Philippines; PNG = Papua New Guinea; PPTA = project preparatory technical assistance; PRC = People's Republic of China; PSOD = Private Sector Department; RETA = regional technical assistance; RRP = report and recommendation of the President; TBD = to be determined; VIE = Viet Nam.

Note: Items highlighted in bold are 2007 deliverables.

**DEVELOPMENT EFFECTIVENESS COMMITTEE 2007 MEETING PROGRAM**

<b>Meeting No.</b>	<b>Date</b>	<b>Agenda</b>	<b>Type of Study*</b>
1	7 February	1. Annual Report on the Implementation of the Poverty Reduction Strategy, 2005: Progress Implementing the Poverty Reduction Strategy 2. The Committee's Meeting Program for 2007	Board Info Paper
2	23 March	1. Indigenous People's Safeguard Policy 2. Report on Managing for Development Results (MfDR) in ADB	SES Report to Management
3	18 April	TA Effectiveness	SES
4	23 May	1. Country Assistance Program Evaluation for PRC Sub-item 1. Transport Sector in PRC Sub-item 2. Selected TA Projects in Support of Public Administration in PRC 2. ECG Peer Review 3. OED's Role in Knowledge Management	CAPE SAPE TPER ECG Report OED Report
5	13 June	1. Country Assistance Program Evaluation for Pakistan Sub-item: Transport Sector in Pakistan	CAPE
6	27 June	1. Private Sector Operations 2. Energy Policy Evaluation 3. Pilot Country Partnership Strategy Completion Report Validation (Maldives)	SES SES New OED Product
7	15 August	1. Country Assistance Program Evaluation for Sri Lanka 2. Global Environment Facility (GEF) Joint Evaluation	CAPE SES
8	12 September	1. Annual Report on Portfolio Performance for 2006 2. 2007 Annual Evaluation Review	AR AR
9	3 October	1. Country Assistance Program Evaluation for India Sub-item 1. Transport Sector in India Sub-item 2. Power Sector in India Sub-item 3. ADB Support for Public Sector and Fiscal Reform in India 2. OED Work Program 2008- 2010	CAPE SAPE SAPE SES
10	24 October	1. Proposed OED Budget for 2008 2. Report on Managing for Development Results (MfDR) in ADB	SES

Note: For meetings on CAPEs, the discussion would focus on the CAPEs. Supporting evaluations like SAPEs and SESs would be available if DEC members wished to refer to them.

\* AR = annual report, CAPE = country assistance program evaluation, PPER = project/program performance evaluation report, SAPE = sector assistance program evaluation, SES = special evaluation study.

## **DEC WORK-IN-PROGRESS: ZEROING IN ON KEY QUESTIONS TO IMPROVING ADB'S DEVELOPMENT EFFECTIVENESS**

1. In the course of its deliberations, DEC has learned to consider certain sets of development effectiveness issues as pointing to the most critical and actionable areas for improvement. DEC members, collectively or individually, have also found it useful to distinguish two categories for assessment of these issues: (a) those affecting the effectiveness of ADB assistance to its DMCs, and (b) those of ADB's own effectiveness as an institution. Outlined below is an initial checklist of such 'critical success conditions' for development effectiveness, a "development effectiveness checklist". These are formulated as key questions to be asked when considering new loan, TA, strategy, and policy proposals. It is a work in progress in DEC's agenda and it requires further examination, deliberation and testing. It also requires feedback from other Board members on its usefulness as a review tool if further work is to be invested in it.

### **A. On Development Effectiveness of ADB Assistance**

#### **1. Does the proposed assistance focus on results?**

- (i) Are the desired immediate to medium term outcomes specified?
- (ii) Is appropriate flexibility built into the design, preparation, agreements, and implementation arrangements so that the focus is on results instead of inputs or compliance?
- (iii) In the case of a program loan, are accompanying conditions realistic and achievable, not unnecessary hurdles to the achievement of results?

#### **2. Some key related views of DEC members:**

- In a critical sector, such as power, positive influence on overall sector policy should be the primary performance measure for ADB assistance..
- Specific approaches to poverty reduction are expected to keep evolving over time.
- As normal operational best practice, ADB can leverage policy dialogue for results with its lending.
- ADB needs to continue to create innovative loan and grant products to facilitate the delivery of results.
- While ADB's country-specific assistance strategy needs to be consistent with overall ADB policies and strategies, it also needs to be dynamically relevant to the country's needs and, to achieve this relevance, an appropriate degree of flexibility in approach and modality of implementation is required.
- The imposition of ADB-driven program loan conditions must be avoided. Conditionality may be necessary to support required reform but conditions must be relevant, right, reasonable, and within reach of government's capacity to implement.
- In relation to safeguard policies, a balancing between the dual objectives of compliance to policy and achievement of positive results is called for. This implies a balance of attention between loan processing and project implementation, and between project level interventions and country level system capacity development.

#### **2. Has country ownership been tested or programmed?**

- (i) Are country commitments specific, monitorable, achievable, and time-bound?

- (ii) How has country ownership of the design and preparation process been demonstrated?
- (iii) Is use of country systems incorporated in the design and implementation processes?
- (iv) Are parallel implementation systems avoided?
- (v) Is effective use of TA for sustainable capacity development included?
- (vi) Is use of local staff and local consultants maximized?

3. Some key related views of DEC members:

- DEC holds full country ownership of any development action as a basic principle. At the same time, ensuring country ownership of the process does not preempt ADB's option to disagree with a course of action proposed by government.
- Real country ownership of a reform program should be differentiated from (mere) agreement to a program proposed by ADB.
- The way forward must be based on empirical evidence; sensitivity to social, economic, and cultural context; and strong stakeholder consultation. In this context, close consultation with the relevant government units is of utmost importance.
- ADB's country partnership strategy (CPS) should reflect a genuine commitment shared by government and ADB to a joint course of action, rather than either side imposing on the other. The CPS should also explicitly address the problems of limited government absorptive capacity, both financial and institutional.
- In respect to the safeguard policies, there is full agreement in DEC with the Paris Declaration on moving towards adoption of harmonized country systems but there remains a range of views on how this should be accomplished. Some DEC members question whether it is reasonable to ask DMCs to meet standards in ADB projects that arguably they could not meet in domestically financed activities. In any case, the primary responsibility for achieving the desired results of safeguards rests with the country.

**3. Has the proposed assistance been designed in collaboration with key development partners?**

- (i) Are the underlying policies and strategies harmonized with those of partner donor or development agencies?
- (ii) Have the key stakeholders been defined and become part of an inclusive partnership in the overall process, including planning and implementation?
- (iii) Has private sector participation been sufficiently considered and effectively mobilized?
- (iv) Is any important stakeholder left out?

4. Some key related views of DEC members:

- The CPS should explain how better coordination and harmonization of donor strategies and programs will be achieved.
- While it may be initiated by ADB, the policy agenda of an ADB sector development program should be developed in full coordination with other major donor agencies that are also assisting the sector.
- Partnership with the private sector should generally be considered. Creating the enabling environment for the private sector should be an ADB concern.

- The objective should not simply be to expand ADB's private sector operations in a country but also to promote enhanced collaboration and coordination between ADB's public and private sector operations.
- It is unrealistic to assume major shifts to private provision and private funding of basic social services. So public sector funding for basic social services cannot be abandoned but its efficiency should be improved.
- With respect to the safeguard policies, the upcoming policy update should define a practical and agreed framework for stakeholder collaboration in applying safeguards to achieve sustainable results with the objective of ultimately relying on country systems.

## **B. ADB Institutional Effectiveness**

### **4. Is there consistency and synergy across ADB policies and strategies, old and new?**

- (i) Has holistic corporate-level planning been exercised so that a newly proposed policy or strategy is consistent and synergetic with all existing policies and strategies of ADB?
- (ii) In a newly proposed sector or subsector strategy, is the results framework integrated with the current MTS framework?
- (iii) Is there a logical sequencing between a new proposal and the necessary inputs (including reviews and independent evaluations of existing policies or strategies) and between the proposal and related proposals or reviews that are planned to follow in the medium term? Is a medium term, multi-year plan for policy and strategy reviews available as reference?
- (iv) As a specific concern, does a new policy or strategy proposal adequately analyze and propose solutions for budget and staffing needs and issues?

### 5. Some key related views of DEC members:

- Relevance to the overarching poverty reduction strategy is a necessary condition across all ADB policies and strategies. For instance, an updated urban sector strategy should be focused on poverty reduction in cities.
- An updated sector strategy will not be more effective than a previous one unless the resources needed to implement the strategy are systematically assessed and realistically budgeted. At the same time, sound decisions on the strategy for a particular sector and the resources to be committed to its implementation cannot be made in isolation of overall consideration by Management of inter-sectoral strategy and resource allocation, with such overall planning being guided by MTS II.
- The institutional debate revolves around the key issue of effective policy implementation under the resource constraints faced by ADB. The current imbalance between policy requirements and resource availability has, as documented in evaluations, impeded satisfactory implementation of policies in some ADB-assisted projects. How this imbalance can be resolved remains the key consideration in moving forward.

### **5. Is Managing-for-Development-Results (MfDR) practiced as an ADB Management approach to decision making?**

- (i) Will the effective implementation of a proposed new policy or strategy be measured through specified results indicators? In the absence of the latter, the

- desired shift in ADB management culture from approval/compliance to implementation/results cannot be expected.
- (ii) Is high-level consultation and dialogue between ADB Management and partner agencies conducted in terms of development results?
  - (iii) Does Management practice appropriate flexibility in application of internal administrative orders so that organizational achievement of results balances mere compliance?
  - (iv) Are opportunities for further improvement, including simplification, of business processes being systematically explored?
  - (v) Is the Management Committee agenda shifting from lending volume to impact achievement?

6. Some key related views of DEC members:

- In reviewing the initial Annual Report on the Implementation of the Poverty Reduction Strategy, DEC members considered that there was a need for substantive improvement in the indicators to be used to measure enhanced ADB capacity to mobilize knowledge for poverty reduction and ADB's effectiveness in influencing policy reform in member countries, as well as a need to focus on fewer overall performance indicators.
- Referring to a recent inquiry sent by International Rivers Network (IRN) following up on outstanding actions on the recommendations made in the performance evaluation report of the Nam Leuk Hydropower Project, DEC agreed with management that here was a good example of how, even after a loan was closed, ADB could continue to pay attention to important follow-up actions and results, including any necessary mitigation measures, based on the proactive cooperation and support of a development partner on the ground. DEC members accepted Management's proposition that ADB's responsibilities in regard to a loan project were not open ended and that local governments, communities and citizens also carried responsibilities for sustaining both project benefits and mitigating measures. However, DEC members stressed that ADB bears ongoing responsibility for delivering against the project design approved by the Board and its policies and procedures.

**6. Is effective ADB human resource management integrated in the proposal?**

- (i) What specific staff performance and teamwork incentives are planned and incorporated in the proposal?
- (ii) Has the related technical staff capacity in ADB required for effective implementation of the proposal been adequately examined? How will weaknesses and gaps be resolved? What is the planned role and extent of use of consultants?
- (iii) Will staff responsible for implementation be sufficiently empowered as well as accountable?

7. Some key related views of DEC members:

- Effective implementation by ADB of its strategy for a sector requires systematic assessment and realistic budgeting of staff resources as well as a clear institutional focal point for the sector (e.g. urban sector).

## DEC WORK-IN-PROGRESS: INCREASING DEC'S EFFECTIVENESS, KEY QUESTIONS FOR BOARD CONSIDERATION

1. There is a strong feeling in the DEC that it is only partially effective and its work needs to be strengthened. Accordingly, in 2007 DEC will seek Board members' specific views on several questions regarding how DEC operates and what DEC should concern itself about.
2. First, there are **process related** questions:
  - (i) Should DEC as a regular practice report to the full Board its recommendations after the conclusion of each meeting, seeking Board discussion and endorsement or approval of the recommendations, to which Management would then be expected to respond as it saw fit? Or should all DEC recommendations that are endorsed or approved by the Board be considered as binding on Management?
  - (ii) Is DEC expected to proactively recommend that a major development effectiveness issue, on which DEC has already had a substantive but inconclusive discussion, be included in the agenda of a full Board discussion? (This was a DEC recommendation in its previous annual report to the Board.)
  - (iii) When there is a significant variance, should a DEC recommendation take precedence over a related OED recommendation?
  - (iv) By what means, other than its annual report, should DEC report to the Board?
  - (v) Should DEC refer issues of inefficient use of ADB staff and budget resources to the BRC?
  - (vi) Should DEC initiate a practice of reviewing Management policy or strategy proposals that are directly relevant to ADB development effectiveness *before* full Board discussion of these? If so, can DEC recommend revisions to such papers before their full Board discussion?
3. Second, there is a fundamental matter of the **scope** of DEC's oversight function that needs to be resolved and reflected, if necessary, in updated terms of reference for the committee. Clearly, in the TOR as presently formulated (Appendix 1), there is an understanding that the DEC's scope of business is operations evaluation and that its main interaction is with OED. Although the TOR does not literally exclude other reports and activities, it is focused entirely on OED reports and activities. However, DEC members have on various occasions expressed interest in discussing matters of development effectiveness that are not necessarily the subject of an evaluation report.
4. *In fact and practice*, during the period covered by this DEC annual report, the committee already decided to discuss such non-evaluation reports, specifically: (i) biannual reports initiated by SPD on the progress of MfDR in ADB, and (ii) the initial annual report by RSDD on ADB's implementation of its poverty reduction strategy. The former, because DEC considered that progress in the results agenda was at the core of ADB's development effectiveness. The latter, because assessment of ADB's progress in implementing its overarching goal of poverty reduction was tantamount to assessment of the development effectiveness of the institution as a whole. On its part, Management sought direct DEC feedback on the report's utility to the Board and to capitals so that the next annual report, which DEC recommended should be submitted for full Board discussion, could be of greater value.
5. *More generally, the question is whether DEC should be given the mandate to work directly with Management on issues of development results that are not dealt with by OED?* This

would include DEC's ability to initiate meetings on thematic development issues as formulated by the committee; and to request reports or proposals from Management or departments other than OED.

6. In particular, since by DEC's terms of reference "development effectiveness" includes "the measure of ... whether ADB's programs and activities have made efficient use of ADB's available resources", should DEC's mandate include oversight of effective administrative and human resource management in ADB?