



Asian Development Bank

Operations Evaluation Department
Operations Evaluation Division 1

Work-in-Progress: Not for Quotation

Title **Annual Report on 2007 Portfolio Performance**

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I. Background

1. The Operations Evaluation Department (OED) has been charged with the preparation of an Annual Report on Portfolio Performance (ARPP) since 2002 (it was previously prepared by the Central Operations Services Office [COSO]). In transferring responsibility to OED, the intent was to make the report more evaluative (and less a simple compilation of data) through more in-depth analysis of the reasons behind the trends. It was also consistent with the desire to bring evaluation forward in the project cycle by conducting more “real time evaluations” (being the evaluation of ongoing operations). The report has succeeded to some extent in becoming more evaluative but further progress is needed. The report presents data regarding Asian Development Bank’s (ADB) operations for a calendar year and an assessment of ADB portfolio performance using standard indicators that largely track input use. ADB does not routinely track results of its operations in a manner that can be reported in an aggregate report like the ARPP. The report for each year also includes the findings of analysis of some issues of particular interest to portfolio performance—usually these topics have emerged from the analysis in the previous ARPP. These special topics have been one way in which OED has sought to make the report more evaluative.

2. This is the first year an approach paper has been prepared for the ARPP. In part, this is to meet the expressed desire of other departments in ADB to know what special topics will be included in the report. However, it is also intended to bring the ARPP preparation into line with standard OED practice.

II. Approach

3. Broadly, the Annual Report on 2007 Portfolio Performance (ARPP07) will follow the same structure and format as that of the 2006 (ARPP06), which means that most of the tables will be contained in appendixes and the main text will be limited to about 40 pages. This was a radical shift from prior practice and was designed in response to a call by the Development Effectiveness Committee (DEC) and others to make the report more readable. General reaction to the new format was favorable.

4. The data for ARPP07 will be drawn from the usual sources. COSO will provide much of the data on sovereign lending (lending to public or private sector but the repayment of which is guaranteed by the Government), non sovereign lending (mostly lending to the private sector which is not guaranteed by the Government), technical assistance (TA) grants, project grants, and private sector operations. Other data will be drawn directly from ADB’s Loan and Financial

Information System (LFIS) and other mainframe databases; and from the information accessible through Lotus Notes and the COSO website in the intranet. Data on non sovereign operations will be provided by the Private Sector Operations Department (PSOD); on cofinancing by the Office of Cofinancing Operations (OCO); on net resource transfers by the Controller's Department; and data on ADB and Resident Mission staffing by the Budget and Personnel Management Services Department (BPMSD). OED maintains a database on project completion reports (PCRs), which needs to be cross-checked and updated against the PCR data available through Lotus Notes, and on project performance evaluation reports (PPERs).

5. The standard data integrated in ARPP06 (Appendix 1 of ARPP06) will be updated by adding the new data for 2007, adjusting the imbedded formulas in the tables, and re-drawing the graphs. However, in cases of presenting prior years' data, these should be rechecked carefully, because sometimes changes or corrections are made to the databases during the year. When a trend analysis using a 3-year rolling average is used, 12 years of data are required to provide the 10 data points for the recent decade.

6. Last year's ARPP included an in-depth review of the Project Performance Report (PPR) which is the main tool for tracking project performance during implementation. For some considerable time OED had been expressing concern that the PPR system was failing to identify many projects that should be classified "at risk." OED also pointed to the difficulties of simultaneously using PPR ratings as a measure of success (e.g. in the performance-based allocation formula and in various reports on development effectiveness) and as management tool to identify those projects that need remedial attention as they are performing below expectations. The review validated and quantified OED's concerns.

7. In ARPP06 OED has proposed that the PPR system be made both more simple and more objective. As part of ARPP 2007, OED will develop and apply on a pilot basis such a simplified system as an input to ADB's Project Processing and Portfolio Management (P3M) project, which is improve the automation of project management. The methodology will be developed in consultation with Regional Departments. ARPP06 recommended developing an index of the overall health of the project portfolio separate from the PPR. In ARPP07, OED will look at alternatives for achieving a greater separation of the twin uses of the PPR system to lessen the moral hazard to under-report performance problems.

8. The major sections of ARPP07 will be:

- I. **Introduction.** This section provides a general introduction to this ARPP.
- II. **Sovereign Operations.** This section tracks a number of financial and other indicators related to loan projects approval, implementation, exits, and results. Tables and graphs are frequently used to show the annual figures achieved during the past 5 years. The current situation and recent trends are explained to the extent that the causes are understood; and the potential effects of the trends on future operations are outlined. The use of project cofinancing was not examined in depth in the previous ARPPs, but is a topic that will be added to ARPP07. More attention will be paid to the analysis of PCR ratings including disaggregated ratings for the main evaluation criteria of relevance, effectiveness, efficiency and sustainability) in ARPP07, including the results to date of OED's new process for validating PCR ratings.

- III. Non Sovereign Operations.** Private sector operations continue to grow in importance. The comprehensive historical data assembled for the preparation of ARPP06 in close coordination with PSOD is a good basis for in depth analysis of the data for 2007.
- IV. Technical Assistance (TA).** This section examines the use of TA grants for project preparation, advisory support to projects, institutional strengthening, training, regional cooperation, and other purposes. As for the loan operations, the current situation and recent trends with regard to TA are analyzed to the extent that the causes are understood, and linked to available in-depth OED studies such as the Special Evaluation Study on the Performance of Technical Assistance. The analysis will pay attention to the varying requirements of the multitude trust funds provided by donors for different purposes. The performance assessments in TA completion reports will also be analyzed.
- V. Grants.** This section was added to the ARPP06 and reported mostly on the sources of funds and implementation progress of the grant projects. Data used in ARPP06 were taken from the COSO database in the intranet. Since COSO has not reported on the Grants program in the past, this will require an addition to their standard data analysis for ARPP07. Reporting on grants separately is of increasing importance given that the Asian Development Fund IX replenishment for the first time allowed the funding of project and programs through grants.
- VI. Special Studies.** For ARPP07, this paper proposes to examine five interlinked issues in greater detail:
- (i) Methods used by other multilateral development banks (MDBs) to measure and monitor portfolio performance. Based on the assessment of comparability, an analysis will be presented on comparative performance. This will help in setting further benchmarks for ADB's portfolio performance and may suggest new options for data collection or analysis. The idea of comparative assessment was well-received when discussed with the relevant departments in World Bank and the Interamerican Development Bank in October 2007 and a commitment to share data has been given.
 - (ii) A continuation of the assessment of the quality of design and monitoring frameworks (DMFs) prepared for loan and TA projects approved in 2007. Quality of DMFs can be seen as one proxy for quality of project design and quality of entry and ADB's development in these areas over the years is of great interest. ARPP07 will present the findings for the assessment of 2006 and 2007 approvals as the assessment of 2006 approvals was disrupted by a serious accident suffered by the consultant.
 - (iii) Development of a composite indicator of the overall health of the portfolio by country and perhaps also applicable to sector assessments as an alternative to the "at risk" status. This issue is important also given the findings of a recent OED evaluation of operations under Asian Development Fund VIII and IX replenishments and the performance based allocation system adopted and modified during the period, which uses the PPR rating as a measure of portfolio performance.

- (iv) An assessment of the possibilities for identification and measurement of various types of project start up and implementation delays in the PPR, and the analysis of these in portfolio review and country performance assessment systems. The indicators should preferably make a distinction between ADB, client, and external factors related causes.
- (v) Case studies of countries (possibly Nepal and Viet Nam) on steps to improve portfolio performance. Outputs of these studies would feed into the CAPEs which are in OED's work program for 2008.

VII. Conclusions and Recommendations. This section (i) summarizes the major results of the analysis in the previous sections, highlighting the significant changes in the situation during 2007 and trends observed during the past decade; (ii) lists the major issues or problems that need to be brought to the attention of Management and the Board; and (iii) recommends remedial measures or suggests further examination of issues where needed.

9. The preparation of the ARPP consists of the following major tasks and steps.

- (i) The required data on loans, TAs, grants, and private sector operations needs to be assembled from the various sources, verified, and quality checked. OED expects to receive the data from COSO by mid February 2008. About 2–3 weeks of OED staff time should be allocated for data collection, verification, and quality checking during February and March 2008.
- (ii) The data should be analyzed, and tables and graphs prepared to illustrate the current situation and recent trends. About 2–3 weeks OED staff time should be allocated during March 2008.
- (iii) The results of the analyses are to be examined in a larger context, to determine the systemic and contingent causes of current portfolio performance and its trend. About 2 weeks of senior consultant time should be allocated during April 2008.
- (iv) The special studies on DMF and project delays are to be conducted independently by consultants. About 4–5 weeks of senior consultant time and 4 weeks of DMF consultant time should be allocated from January to April 2008. As necessary, about 4–6 weeks of research analyst should also be allocated.
- (v) The special study on portfolio performance management in other MDBs will be conducted by the Team Leader with assistance from other OED staff and possibly a research analyst. The country case studies could also be undertaken with the same arrangement.
- (vi) The narrative text of the various sections is to be drafted, and the initial draft ARPP circulated to concerned departments and offices for review and comment. About 2–3 weeks of OED international staff time and 8–10 weeks of senior consultant time should be allocated from March to May 2008.
- (vii) Once the initial comments are addressed and incorporated where appropriate, heads of departments are invited to a presentation and discussion of the ARPP findings. (mid June 2008) About 1 week of senior consultant time should be allocated to complete the draft final report following the discussion.

- (viii) The draft final ARPP is circulated to Management and the Board for review by end July 2008.
- (ix) The draft final ARPP is discussed at a meeting of the DEC, and final revisions are discussed and agreed. About 1 week of senior consultant time should be allocated during August 2008.

III. Dissemination Plan

10. Two main audiences will be targeted. The first audience is OED itself which needs to be aware of issues of portfolio performance in order to be able to do its evaluations well and give appropriate guidance to operations department when commenting on their proposals or progress. The second is Board and senior management, including senior staff of the Budget, Personnel, and Management Systems Department (BPMSD). These parties are in a position to provide support and the resources required to efficiently and effectively put the recommendations of the report into practice. The report should assist the Board, senior management and key BPMSD decision makers in improving conditions and procedures regarding quality at entry as well as project administration. The report is scheduled to be discussed at the Development Effectiveness Committee and commented on by Management. The ARPP will be posted in the OED website, along with the Management's response and the DEC Chairperson's summary.

IV. Staffing and Scheduling

11. The person-weeks required to produce ARPP07 would include:
- (i) OED international staff for about 6 weeks on intermittent basis for report oversight and work on special studies, and 2 weeks for text preparation;
 - (ii) OED local staff for 3–5 weeks for data collection, verification and analysis, plus 4–5 weeks for the special studies;
 - (iii) a senior consultant for about 10–12 weeks of intermittent inputs, to work closely with the OED international staff;
 - (iv) local consultant/s (research analyst/s) for about 12 weeks, to work closely with the OED local staff (when necessary) and to support the special studies; and
 - (v) a consultant for 4–6 weeks to prepare the DMF study.
12. The preparation of ARPP07 will require the services of two international consultants (i) Portfolio Evaluation Expert and (ii) Evaluation Expert will be required for about 12 weeks of intermittent inputs from December 2007 to July 2008. A local consultant research analyst will also be recruited to support the special studies. The terms of reference for the consultants are in Appendix 1.

13. The study will adhere to the following schedule and output milestones

Approach Paper Finalization	IV January 2008
Gathering of Data	February 2008
Completion of Special Studies	16 May 2008
Completion of Full Report	13 June 2008
Interdepartmental Circulation	27 June 2008
Draft to Editor	11 July 2008

DG Approval
Circulation to OSEC

25 July 2008
29 July 2008

attachment: Appendix 1: Terms of Reference for Consultants

cc: J. Tubadeza, OEOD; Chrono File; Project File; OED Central Files

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