

**MANAGEMENT RESPONSE TO THE
2007 ANNUAL EVALUATION REVIEW: THE CHALLENGE OF CAPACITY
DEVELOPMENT AND
ACTING ON RECOMMENDATIONS AND LEARNING FROM LESSONS IN 2007:
INCREASING VALUE ADDED FROM OPERATIONS EVALUATION**

On 24 September 2007, the Director General, Operations Evaluation Department (OED), received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate OED's *2007 Annual Evaluation Review* (Review). The Review provides a helpful overview of OED's activities and the performance of the Asian Development Bank's (ADB) lending operations. We welcome the inclusion of capacity development as a theme of the Review. The findings of the Review confirm the importance of our ongoing initiatives to improve loan and technical assistance (TA) portfolio performance and integrate capacity building into country operations.¹ We note that the Review does not present any recommendations, but instead provides a few pointers for future directions in capacity building. We note these suggestions and look forward to further discussion with OED on the theme of capacity development, especially once the special evaluation study on this topic has been finalized.

2. We further appreciate OED's report on *Acting on Recommendations and Learning from Lessons in 2007: Increasing Value Added from Operations Evaluation*. We are pleased to note that the report is generally positive about ADB's performance in acting on the Development Effectiveness Committee's (DEC) and OED's recommendations. We would also like to note that recommendations from DEC and OED have played vital roles in ADB's learning and change management process.

II. Specific Comments on the "2007 Annual Evaluation Review"

3. **Performance of ADB's Lending Operations.** We are encouraged to note the Review findings that (i) the success rate for loan projects has significantly improved since the mid-1980s, and (ii) the success rate of program loans has markedly improved to approach that of project loans. As indicated in the Review, this reflects the positive effect of initiatives aimed at strengthening project quality and stronger institutions and better policies at developing member countries (DMCs), among others.

4. We agree with the Review's finding on the common success and deterrence factors for project and program loans, which is consistent with that of a number of other analyses, such as the Economic and Research Department's Economic Analysis Retrospective.² We also note that we are undertaking various measures to maintain these improvements for the future.

5. **Capacity Building.** We agree in general with the Review suggestions on capacity building. On OED's suggestion to pilot alternative approaches in capacity

¹ These include ADB. 2005. *The Action Plan to Improve Loan and TA Portfolio Performance in Response to the 2004 Annual Report of the Operation Evaluation Department*. Manila; and ADB. 2007. *Integrating Capacity Development into Country Programs and Operations Medium-Term Framework and Action Plan*. Manila.

² ADB. 2006. *Economic Analysis Retrospective 2005: Strengthening Quality-at-Entry of ADB Operations*. Manila.

building, we note that many initiatives have been undertaken to pilot innovative approaches in capacity building in ADB. For example, there is a major initiative underway in Pakistan that will apply the capacity development framework adopted in ADB's capacity framework and action plan comprehensively, across sectors, at provincial and local levels.

6. The Review also suggested that ADB incorporate capacity building strategies into country partnership strategies and ensure the recently approved Medium-term Framework and Action Plan for Capacity Development to be fully resourced. We note that these have resource implications that need to be considered as part of ADB's work program and budget preparation process.

III. Specific Comments on “Acting on Recommendations and Learning from Lessons in 2007: Increasing Value Added from Operations Evaluation”

7. As the report on *Action on Recommendations and Learning from Lessons in 2007* (Report) is essentially a compendium of recommendations from other OED reports, we will focus our comments on its general purpose and principal findings, rather than commenting on the individual recommendations cited.

8. **Overall Assessment.** We concur with the Report's positive assessment regarding the implementation status of actions recommended by OED and DEC in the 2006 Annual Report of the DEC and the 2005 Annual Report on Loan and Technical Assistance Portfolio Performance. We note that many of these recommended actions are already mainstreamed into ADB operations.

9. **Proposed OED's Evaluation Approach.** While acknowledging the great need to ensure significant value added on a consistent basis from operational evaluation, we support the proposed steps to achieve this in the Report by (i) sharpening evaluation principles and strategies, (ii) distinguishing recommendation typologies, and (iii) encouraging utilization-focused recommendations. We believe that OED's recommendations on operational matters should not only be specific and feasible but also be value added and substantive in terms of their impact on development outcomes. This will minimize the costs of complying with recommendations for ADB and the DMCs. We also encourage OED to continue to take a more consultative approach in developing recommendations to improve potential for implementation and result to desired improvements in ADB operations.

10. **Structure of the Report.** We note that the Report is a collection of numerous recommendations from various OED and DEC reports. Therefore, it is essentially duplicative in nature, as its recommendations are mostly extracted from other OED reports. Also, as those recommendations then become separated from their original context, this could cause some confusion as to their genesis and purpose, especially for readers not closely acquainted with the subjects at hand.

11. For greater clarity and focus, we suggest that, in the future, the Report concentrate on a small number of key recommendations and lessons selected from other OED reports. We also suggest that OED consider presenting such recommendations in a matrix format for easier identification, with content defined in a consistent and sufficiently detailed manner.

12. **Overlapping Nature of Recommendations.** We note that given widely differing nature of recommendations, there is overlap in their intention and consequently in their

follow-up. As such, we would suggest that the Report's recommendations be grouped in a logical manner, and that the relationships between the various individual recommendations be made clear. For additional clarity, it would also help to have a hierarchy for the recommendations, with clear priorities identified, and—potentially—with the scope for some of these individual recommendations to be subsumed into others.

13. **Recurrent Recommendations.** The recurring recommendations mentioned in paragraph 48 of the Report are under various stages of implementation. Also, many of these are too general or broad to consider them completed at any particular point in time. While the ongoing Long-term Strategic Framework Review can further address these, as suggested in the Report, it should also be clear that these are continuing activities. For example, on the recommendation to transform ADB's business processes to make them more effective and efficient, several measures to address it are being implemented as continuing activities under the Innovation and Efficiency Initiative.

14. **Methodology for Assessing Compliance with Recommendations.** The Report provides both qualitative and quantitative assessments of compliance with implementing recommendations (e.g., paragraph 20 of the Report). As there may be several reasons for differing status in terms of follow-up, it would be useful that the Report elaborates on the reasons for the varying compliance levels, instead of merely enumerating the status. Such factors could, for example, examine the resource implications of implementing recommendations, capacity constraints in executing agencies, or simply the changing context in which ADB does business.

15. **Assessment of OED's Actions.** The Report frequently cites/assesses actions taken by OED itself. To maintain objectivity, we suggest that self-assessment of OED actions not be included in this report.

16. **Tracking Action on the Recommendations.** We welcome the launch of the evaluation information system to track action on recommendations and OED's plan to translate its recommendations into operational actions. We fully recognize the importance of tracking the use of OED and DEC recommendations. However, to effectively translate its recommendations into operational actions, it is essential (i) for OED to make realistic and actionable recommendations and (ii) for concerned departments/offices to agree on how to operationalize suggested measures without creating another layer of procedural requirements. In some cases, it would be helpful to leave detailed plans to departments/offices concerned rather than imposing them from outside.