

## MANAGEMENT RESPONSE TO THE ANNUAL REPORT ON 2008 PORTFOLIO PERFORMANCE

On 17 August 2009, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

### I. General Comments

1. The Annual Report on 2008 Portfolio Performance provides a helpful overview of ADB's portfolio covering sovereign loans, grants, technical assistance (TA), and non-sovereign operations. We agree with the findings that portfolio performance has continued to improve in several key areas. We also appreciate IED's suggestions to further improve portfolio management and performance as well as its special evaluation studies that underscore the need to enhance the quality of project preparation and implementation.

2. In particular, loan disbursements, which have been on the rise since 2004, have reached an all-time high of \$7.9 billion in 2008 compared to only \$3.5 billion in 2004. This has contributed to a significant increase in positive net resource transfer to ADB's developing member countries over the last three years, from \$2.17 billion in 2006 to \$3.21 billion in 2007 and \$4.2 billion in 2008. We are continuing our efforts to ensure that (i) this trend continues — in particular, so that ADB's developing member countries can meet the challenges of the current global financial crisis; and (ii) the improvements remain sustainable through enhanced portfolio management by operations departments and expansion of the portfolio management function of the Central Operations Services Office through the establishment of the Project and Portfolio Management Unit in early 2009.

### II. Specific Comments

3. **Improve design and implementation of projects.** We agree. Avoidance of overly complex project designs, more realistic implementation schedules, increased due diligence during project preparation and processing, and measures to ensure project readiness before Board approval and to address project start-up delays are all critical. Based on lessons learned, projects with multiple components and many executing/implementing agencies will generally be avoided. We note that more upfront loading of resources for project preparatory work and early screening of project concept papers contribute to enhanced quality of project design, and these practices will continue.

4. As stated in the Action Plan in the Management Action Report System in response to the IED Annual Report on 2007 Portfolio Performance, Management will ensure project quality-at-entry through more systematic use of project readiness filters and procurement capacity assessments of executing agencies. Some regional departments are already applying project readiness filters, and the results are very encouraging. Since February 2009, regular monthly Project Administration Unit Heads' meetings have been convened to discuss portfolio performance management issues and to distill best practices in managing portfolio performance. Management is placing due emphasis on portfolio

performance management by discussing portfolio performance issues with heads of departments at quarterly Operations Review Meetings (e.g., reducing project start-up delays and setting realistic project implementation periods were discussed at the April and July 2009 Operations Review Meetings). Finally, the Loan Delivery Working Group, which is currently identifying possible reforms to ADB's business processes, will release shortly its recommendations for streamlining loan delivery.

5. Since 2008, ADB has embarked on the Project Processing and Portfolio Management (P3M) initiative based on an integrated work flow process. The first phase includes, *inter alia*, management of project preparation, project implementation, and portfolio performance. Development of an integrated information technology solution for the first phase of P3M is expected to be completed in early 2010. With P3M-generated historical s-curves showing the average implementation period for a particular sector for each country, ADB project processing teams will be equipped with an IT-based tool to prepare more realistic implementation schedules.

6. **Expand the monitoring and reporting arrangements for nonsovereign operations.** We agree. Monitoring and reporting of nonsovereign operations (NSO) should be appropriately conducted in terms of frequency and format, especially as under Strategy 2020, private sector development and private sector operations are targeted to reach 50% of ADB annual operations by 2020. We observe that the P3M initiative will include enhanced functionality for appropriate monitoring and reporting of NSO. In addition, a comprehensive framework is being put in place to ensure better monitoring and reporting. Monitorable indicators measuring the impact, outcome and outputs of NSO are being introduced to ensure consistency among the Corporate Results Framework, the Extended Annual Review Reports and IED evaluations. This improvement, along with annual reporting on the overall impact of private sector operations through annual reports, will further help strengthen monitoring and reporting of NSO of ADB.

7. **Comprehensively revise and restructure midterm reviews.** We disagree. In addition to midterm reviews, annual project reviews (semi-annual for problematic projects), annual country portfolio reviews and special project administration reviews are already being carried out to provide appropriate guidance through tripartite discussions with executing and implementing agencies, the government concerned, and ADB. As mentioned above in para. 6, the ongoing P3M initiative will provide an integrated work flow process, including management of project preparation, project and portfolio performance. We, therefore, believe that there is not much added value to conduct a stand-alone revision and restructuring of the midterm review.

8. **Undertake substantive self-evaluation of the TA performance.** We agree. As part of the ongoing TA reforms led by the Strategy and Policy Department, a task force, comprising interdepartmental focal points, has been looking into revising the TA completion report template to facilitate a substantive self-evaluation of the TA performance with sign-off by the TA supervising unit director.