

MANAGEMENT RESPONSE TO THE ANNUAL REPORT ON 2007 PORTFOLIO PERFORMANCE

On 21 October 2008, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. The Annual Report on 2007 Portfolio Performance (the Report) provides a helpful overview of ADB's operations. We agree with the findings that portfolio performance has continued to improve in several key areas. We also appreciate OED's helpful suggestions to further improve portfolio management and portfolio performance.

2. In particular, loan disbursements, which further increased in 2007, have grown at an average rate of 26% per year during the last 3 years. This has contributed to a welcome increase in positive net resource transfer to ADB's developing member countries, which increased by 48% from \$2.17 billion in 2006 to \$3.21 billion in 2007. We are exerting efforts to ensure that these recent improvements remain sustainable.

3. We support the more analytical structure and arrangement of the Report that focus on issues pertaining to portfolio management and portfolio performance. We appreciate the continuing constructive and consultative approach taken by OED in preparing the Report. Our specific comments below are structured around the four key recommendations.

II. Specific Comments

4. **Project Implementation Periods.** Given the multifaceted causes of implementation delays, we agree with the need for a more realistic estimation of project implementation periods, including project start-up time. The use of proven project management tools—including the critical path method—during project processing is facilitating realistic estimation of project implementation periods. Rather than incorporating standardized start-up periods and contingencies for implementation delays, the implementation periods should be carefully determined by both ADB and the borrowing countries, taking into account past implementation experiences and the capacity of the executing agencies (EAs). Management is committed to ensuring project quality-at-entry through more systematic use of project readiness filters, including EA capacity assessment, EA capacity building, and preparation of realistic procurement plans during project processing. More upfront loading of resources for project preparatory work and early screening of project concept papers are contributing to enhanced quality of project design.

5. To facilitate the efficient implementation of projects, ADB has launched an *e-Handbook on Project Implementation* on the ADB website¹ in 2008. The e-Handbook serves as a one-stop gateway to ADB policies, procedures, and documents on project implementation, and contains proven project management tools such as critical path method schedules to facilitate procurement of goods, works, and consulting services. ADB has started using the e-Handbook in its country project implementation and administration seminars to train EAs on project management tools, including the critical path method. More systematic use of project readiness filters and project management tools together with e-Handbook training to facilitate advance actions for procurement of goods, works and consulting services will reduce implementation delays over time.

6. **Project Performance Report (PPR) System.** While loan portfolio performance continues to improve, we note a significant discrepancy between the PPR rating (on average about 90% satisfactory) and project completion report ratings (on average about 75% successful). The ADB-wide project processing and portfolio management (P3M) working group (on which OED is represented) is in the process of conducting a thorough review and detailed analysis of the PPR system and comparing it with similar systems of other multilateral development banks. It is too early to conclusively determine whether any of the specific suggestions in the Report should be incorporated into the refined PPR system. However, depending on the outcome of this review, the P3M working group will take into consideration the useful suggestions of the Report to refine the PPR system, including introducing a new portfolio health indicator separate from the "at risk" indicator, and progress reports that track work plans to better manage project implementation. Under the recently revised Performance-Based Allocation Policy, only those projects *actually* experiencing problems are considered for rating the country portfolio performance, thereby removing the disincentives to accurately report *potential* problems.

7. While automation and refinement of the PPR system will improve its efficiency, improving the reliability of project information and ratings also requires closer attention. To address this aspect, Management is considering establishing a PPR focal point to assert oversight on the quality and timeliness of data input into the PPR system and also to provide training to ADB project officers during project implementation seminars held in headquarters or in a regional hub for resident mission project officers. In addition, a PPR module will be included in country project implementation and administration seminars that ADB conducts for EAs as they are usually the primary source of information for many of the project implementation indicators.

8. **Design and Monitoring Frameworks (DMFs).** ADB remains committed to increase and measure development effectiveness by embracing Managing for Development Results. We, therefore, support the general thrust to strengthen the linkages between project level results frameworks, sector road maps, country results frameworks, and the new ADB-wide results framework. However, this may not necessarily require a revision of the DMF guidelines.

¹ <http://www.adb.org/documents/handbooks/project-implementation/>

9. DMFs and subsequently PPRs, are the sources of information for Level 2 indicators of ADB-wide results framework. The project performance management system (PPMS) working group (on which OED is also represented) will further refine the linkages and strengthen the DMF for projects and programs to take into account sector, country level, and ADB-wide result frameworks and related reporting requirements. Guidance on such linkages will subsequently be provided to staff. Improvement in the quality of DMFs will be supported through continuing capacity building and training of ADB and EA staff. We note that there have been some improvements in DMF quality, resulting from extensive training conducted for ADB and EA staff, more widely distributed DMF guidelines, and better quality control within ADB.

10. **Development Results Monitoring of Completed Projects.** Given the significant staff and budgetary implications, we do not consider that the introduction of a development results monitoring system for a period of 3-5 years after project completion would be practical at this moment. With a view to enhancing development effectiveness, ADB has taken several initiatives recently to strengthen results monitoring and reporting. These include the preparation of country development effectiveness briefs for Asian Development Fund countries, and the adoption of ADB-wide results framework. Management is also preparing the annual "Development Effectiveness Review" that will report on ADB-wide results framework.