



Asian Development Bank

Operations Evaluation Department

Operations Evaluation Division 1

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Title: **Special Evaluation Study: ADB Support for Public Sector Reforms in the Pacific—Were the Right Needs Addressed the Right Way?**

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I. BACKGROUND

A. Introduction

1. In 1995, ADB established the Office of Pacific Operations (OPO) in headquarters. OPO was renamed the Pacific Department (PARD) in 2002 as part of a broader restructuring process in ADB. OPO prepared a new strategy for operations in the Pacific which became operational in 1996 (see para.7 below).¹ This reflected ADB's strategic shift from a project lender to a development agency, and current development thinking in the Pacific. The strategy proposed a greater focus on ensuring that better policies were put in place, which was consistent with the need for substantial economic reform agreed by the Forum Island countries during the Brisbane (1994) meeting and further developed in the Madang (1995) and Majuro (1996) meetings. The PDMCs, and major bi-lateral development to the region including the United States, Australia and New Zealand, recognized that ADB had an important role in their development, bringing the strengths of a multilateral development agency in such areas as economic management and donor coordination.² ADB organized the first Consultative Group (CG) meeting for PDMCs in 1995—for the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI).

2. Since 1992, ADB became increasingly involved in preparing economic assessments on each Pacific developing member country (PDMC). These assessments evolved into the Pacific Island Economic Report series (PIER) and ADB approved technical assistance (TA) projects to address economic management concerns identified in the reports. By the mid-1990s, program loans took this evolving role a step further with ADB supporting public sector reforms to a number of PDMCs that addressed economic restructuring, public resource management and facilitation of private sector development and were approved between 1997 and 2002 (Appendix 1 provides a summary description of ADB financed program loans that addressed public sector reforms). Between 2003 and 2008 no new public sector reform loans were approved, yet technical assistance to support for public sector management and capacity development has continued, and recent PDMC country programs suggest that support for further public sector reforms are being considered for further ADB support. As ADB plans lending operations for public sector reforms, post-evaluation of past support for public sector reforms to identify lessons and future alternative strategies is timely.

¹ ADB. 1995. *Strategy for the Pacific: Policies and Programs for Sustainable Growth*. Manila.

² At that time the World Bank had withdrawn from operating in the Pacific, confining itself to a bi-annual economic report.

B. Context

3. The economic performance of the PDMCs since the early 1980s has been disappointing. The average GDP growth up to 1995 was a little over 2%, although the average gross investment rate was 28%, similar to that of East Asia, suggesting low levels of productivity. GNP per capita varied from around \$700 in Kiribati and the Solomon Islands to \$ 1500 in FSM and RMI, and \$2000 in Fiji. These compared poorly with island nations in the Caribbean and Indian Oceans, and were more comparable to African countries.

4. Several factors were seen as the cause of this mixed record: (i) small and remote islands, many with limited resources, scattered over the vast Pacific Ocean, with poor air and shipping connections; (ii) small domestic markets and long distances to overseas markets presented formidable obstacles to private sector development; (iii) public investment had dominated investment, but much had been in low-return areas (e.g. buildings) or in areas where returns have long gestation (e.g. social infrastructure); (iv) a large and often inefficient public sector, crowding out the private sector: (v) a substantial proportion of public sector expenditure going on salaries and wages, with critical investments in education and health being neglected as a result, to the detriment of human resource development; (vi) inexperienced and weak institutions making it difficult to formulate and implement adequate policy responses to the challenges; and (vii) weaknesses and imbalances in public expenditure and fiscal management, despite direct annual fiscal support or indirect support through trust funds from major bi-lateral partners in several countries. This also made it difficult to ensure that a larger share of the region's resources (e.g. in fisheries and forestry) benefited the PDMCs themselves. These factors and constraints are discussed further in Sections II and III below.

5. Overall performance has improved in the last 3 years, growth averaging 2.8% between 2005 and 2007 (AusAID June 2008 report) with 4.5% forecast for 2008. However, this compares with growth rates of 8-9% in Asia, and there is significant variation across the region. Commodity prices have favored PNG, while the same increases have affected other countries adversely. Growth in the Cook Islands, Samoa and Vanuatu has been led by buoyant tourism (although Cook Islands has faced a recent decline). The other countries show continued stagnant growth, with Fiji, Solomon Islands and Tonga affected by recent political instability. Remittances have increased dramatically in several countries, particularly in Fiji, Kiribati, Samoa and Tonga where opportunities to work abroad have been greater. Overall, macroeconomic management has improved, with better control of fiscal deficits and inflation. Progress in microeconomic reform has been slow however, with generally little growth in the private sectors, although the introduction of competition in the mobile phone market in many countries has had a dramatic impact. Progress towards achieving the Millennium Development Goals in many of the countries, however, is not good, and poverty in many countries remains serious and is increasing. 80 per cent of the region's population lives in the 3 poorest countries of Kiribati, PNG and the Solomon Islands.

II. ADB'S STRATEGY AND RESPONSE

A. PARD Strategies and Program Responses

6. Key development partners in the mid 1990s discussed strategies to tackle the constraints outlined above. These strategies would focus on (i) creating an enabling macroeconomic environment; (ii) reducing the size and role of the public sector; (iii) creating an enabling environment for the private sector, including removing perceived anti-export biases, lowering costs for domestic and foreign business (including wages); (iv) increasing returns from

forestry, fisheries and tourism; and (v) regional cooperation, including resource management, trade, and transportation.

7. In 1995, PARD (then called Office of Pacific Operations) produced its first strategy covering operations in the Pacific as a whole, for the period 1996 - 2000. Up till then, strategies had been prepared for individual countries (individual strategies have not been prepared for PDMCs since 1995). The strategy, stated:

“a specific aim of Bank assistance to the region is to make its assistance more effective in helping create an environment that will lead to improved productivity, increased private sector investment, and sustained economic growth. This implies a focus on ensuring that better policies are put in place at both the macro and sector levels. It will require the Bank to take a more proactive role in reaching agreements with governments and other aid agencies about how to establish and implement improved policies”. (footnote 1 p.v)

8. In line with this strategy, between 1996 and 2002, ADB approved 11 program loans supporting public sector reform to nine PDMCs: the Cook Islands, FSM (2 loans), Nauru, Papua New Guinea (PNG), RMI (2 loans), Samoa, Solomon Islands, Tonga and Vanuatu. The Samoa program focused only on financial sector reform, but this was part of the government's broader public resource management reform program. TA grants were approved to support implementation of all the program loans. Summaries of the reform program loans and TA are provided in Appendix 1. No new reform program loans, however, have been processed after 2001, although a grant is currently under consideration for Tuvalu.

9. The 11 loans drew on both OCR and Special Funds, and totaled \$211.8 million equivalent, with the largest loan being \$70 million to PNG.³ ADB approved 18 associated TA grants, totaling \$10.8 million and one TA loan for \$1 million. Some of the TA was supplemented by the Australian Agency for International Development (AusAID).

10. Many of the reform program initiatives were in response to an economic crisis – current or imminent – and had an immediate emphasis on fiscal stabilization. However, some were opportunistic, responding to a reformist government's agenda. The reforms, notably fiscal stabilization, right-sizing of the public sector and creating an environment conducive to private sector-led growth, were seen as essential for economic growth to meet the aspirations of the population. Implementation success and sustainability however have been mixed, due largely to political and cultural/traditional constraints and weak institutional capacity.

11. In preparing a new Pacific strategy for the new millennium in 2000⁴, following implementation of the 1996-1999 Strategy, PARD recognized the continued disappointing growth performance and increasing poverty. It concluded that the most significant lessons from implementation of the 1996–1999 Strategy were the need (i) for the PDMCs to have stronger ownership of the policy reform and investment programs; (ii) to design development interventions that take into account local culture and local capacities; (iii) to pace and sequence governance and economic reforms to ensure effective institutionalization; and (iv) to use consultants judiciously without creating dependency.

³ The Private Sector Development Program Loan to FSM included a project loan of \$8 million.

⁴ ADB. 2000. *A Pacific Strategy for the New Millennium*. Manila

12. The strategy proposed continuing support for economic management, governance and public sector reform. It called for the continued use of program and sector loans to support reform programs but, as noted above, in the event no further loans have been approved. To address the challenges it focused on 6 key factors: (i) vulnerability of the economies because of their remote locations, narrow resource base, susceptibility to natural disasters, and the influence of global markets; (ii) political stability and good governance; (iii) limited availability of skilled human resources; (iv) the wide range of socio-cultural factors influencing politics and productivity; (v) rising population rates; and (vi) inadequacy of physical, technological and financial sector infrastructure to underpin sustainable growth.

13. The current strategy⁵ (2005-2009), and its underlying assessment, is more upbeat on growth prospects, noting that there had been some improvements in economic performance in some countries. It shifted focus to a broader approach to meeting the challenges, with priority given to the poor through improving opportunities for cash incomes and access to basic social services. In assessing past strategies, it focused more on the process of reform itself as central to outcomes, the need for a longer time frame, and capacity development. Direct advisory and other support for private sector development also became a feature in some PDMCs after 2004, providing an added dimension to earlier support for enabling environment reforms.

14. However, PARD's midterm review of the strategy⁶ (January 2008), notes that the region continues to display the symptoms of a fragile development process. Economic growth remains generally low and progress towards achievement of the MDGs appears to be losing momentum. The review shifts emphasis on the role of ADB in the reform process, noting that responsibility for addressing the regions development challenges rests primarily with governments, the business sectors and the communities themselves. It states that the social and political support for change needs to be built internally for political and economic reforms to be owned locally and implemented with commitment. It concludes that external parties are an important source of support for the needed process of change, and that these parties cannot lead the way. This supportive role guides the work of ADB in the Pacific. In 2007, PARD reconfirmed to PDMCs its commitment to be more responsive to the country and its governance context in its operations.

B. Other PARD Internal Assessments

15. In 1999, PARD prepared a report⁷ assessing the reform programs then under way in six countries (Cook Islands, FSM, RMI, Samoa, Solomon Islands, and Vanuatu). Many of its key findings, noted below, remain concerns today:

- (i) Political commitment to, and ownership of, the reform program is essential, as reform is a de-stabilizing process involving change and demands pain from various segments of society. No government undertakes reforms without some risk of becoming unpopular and possibly losing its mandate to rule. ADB must be sensitive to, and understand, these realities;
- (ii) Stakeholders expect to see some immediate tangible benefits. While improved fiscal stability had been an immediate benefit of reforms developed to address a crisis, this had not produced obvious immediate gains to counteract the

⁵ ADB. 2005. *A Pacific Strategy for the Asian Development Bank 2005-2009: Responding to the Priorities of the Poor*. Manila.

⁶ ADB. 2008. *Working in a Fragile Environment: A Midterm Review of the Pacific Strategy*, Manila

⁷ ADB. 1999. *Reforms in the Pacific: an Assessment of the Asian Development Bank's Assistance for Reform Programs in the Pacific*. Pacific Studies Series (No.17). Manila.

- significant negative impacts of public sector downsizing as a response to the crisis;
- (iii) Designs were too complex and too ambitious in terms of time targets, being beyond the capacity of governments to implement without significant external consultant input;
 - (iv) The objective of fiscal stabilization had taken precedence over other reform components;
 - (v) A longer-term perspective was required, but most loans were of 2–3 years duration. How then does ADB ensure that it remains actively involved and maintains its leverage with the government after funds have been disbursed and the loan closed?;
 - (vi) Cultural traditions permeate society and influence social processes but are often not understood by outsiders. These affect decision making processes and actions of public servants, particularly where newly proposed systems clash with traditions (e.g. *wontok* system of relationships). Participatory approaches to the introduction of reform measures, particularly those that are culturally sensitive, are essential to ensure sustainable solutions; and
 - (vii) The impact of long term advisers and consultants was far from encouraging.

16. A PARD 2004 report⁸ examining the private sector supported the focus on the private sector as essential to lead growth, but this required reforms to the enabling environment. The review concluded:

- (i) that 'modernization' is a necessary condition for development but does not necessarily mean forgoing tradition and custom;
- (ii) effective solutions can only emerge at the will and leadership of the countries themselves;
- (iii) the governments must engage their citizens in a dialogue so that there is a general understanding of the need for change and support for it;
- (iv) the agenda is large and issues of sequencing selectivity and priority will arise;
- (v) bold political leadership will be required; and
- (vi) there is no alternative to change if the future and aspirations of the younger generation in the Pacific are to be met.

17. In 2004 ADB adopted capacity development (CD) as a thematic priority. Donors have invested heavily in strengthening capacity in Pacific DMCs over the past 3 decades, but the results have been mixed at best. In 2006 PARD commissioned a regional study to examine the impact of CD, which included 20 case studies in 11 countries across the region.⁹ The study found that despite the challenges and shortcomings, public sector capacity had been successfully developed and sustained in each of the PDMCs. It noted that the successes can be attributed to strong leadership, effective community participation or demand, solid understanding of the programming context, getting the incentives right, and effective use of technical advisors. It also noted, however, that understanding, "of the reasons for success has tended to be project or program specific, or anecdotal, and after decades of external assistance to build capacity in the Pacific, it is time that the Pacific stakeholders and their development partners better understood how capacity can be successfully built and sustained" (footnote.10.p iv). PARD is interested in the Operations Evaluation Department (OED) examining this further in

⁸ ADB. 2004. *Swimming Against the Tide: An Assessment of the Private Sector in the Pacific*. Manila.

⁹ ADB. 2008. *Capacity Development in the Pacific: Learning from Success*. Manila.

the context of the reform program loans and associated TA, helping advance knowledge on the question of how CD should be implemented successfully.

18. In a new publication on capacity development, PARD has used a jigsaw to illustrate the many factors that influence success¹⁰. While Pacific ownership (leadership, relevance, vision) and Pacific inputs (informed demand, existing capacities, and local consultants) are corner pieces, the heart of the jigsaw is an understanding of the political economy, and informed participation. The other corner pieces are foreign facilitation (people consultants, managing change, donor-coordinated) and design framework (supporting environment, results-based, long-term, and adaptive).

III. ADB AND OTHER EVALUATIONS

A. ADB

19. In 2007 OED published an ADB-wide study on program lending;¹¹ the study reconfirmed key findings from an OED 2001 study on program lending¹² including recognition of the importance of understanding policy-based lending as supporting a change management process that combines international best practice with domestic policy processes. In addition, it found that overly complex policy matrices and excessive use of loan conditions had an adverse effect on program performance. Improved practices were required to ensure (i) adequate policy analysis as a basis for policy dialogue; (ii) gauging and building government commitment, ideally with government ownership; and (iii) a realistic policy framework and matrix incorporating a manageable approach to conditions for loans.

20. The 2007 study found that factors within ADB's influence that contributed to successfully achieving outcomes included (i) consistency of reform outcomes with government reform agendas and priorities; (ii) sufficient analysis and dialogue; (iii) well-targeted reforms and policy change consensus among decision makers and stakeholders; (iv) coherence of program design and policy matrixes; (v) fewer, focused and manageable conditions that were acted upon before program start-up; (vi) sufficient implementing agency capacity; and (vi) reform costs were identified and met by the program or counterpart funding.

21. Factors within ADB's influence on designs that undermine achievement of results included (i) insufficient consideration of macroeconomic and wider sector policies; (ii) inconsistency of reform outcomes with government priorities; (iii) lack of counterfactual analysis and poorly understood outcome and policy alternatives; (iv) complex and ambitious reforms; (v) poor decision maker and stakeholder support and awareness; (vi) overly complex designs with too many tranche release conditions specified in the policy matrix; (vii) back loading conditions to second and subsequent tranches; (viii) weak capacity of implementing agencies; and (ix) failure to identify or manage key direct and indirect costs.

22. Although OED's few TA performance evaluations of support to Pacific financial institutions did not directly address the reform process or CD, common concerns emerged about CD being seen largely as training of individuals and not of strengthening and responding to the specific needs of the institutions concerned, with little analysis of what institutional strengthening was needed.

¹⁰ ADB.2008. What Pacific Future? Manila.

¹¹ ADB. 2007. *Policy Based Lending: Emerging Practices in Supporting Reforms in DMCs*. Manila.

¹² ADB. 2001. *Special Evaluation Study on Program Lending*. Manila

23. Program completion reports (PCR) were prepared by PARD for 10 of the 11 programs, and OED has prepared program performance evaluation reports (PPER) on four of the 11 program loans. Although OED has not validated the PCRs, an initial desk review found that almost all are sound and surprisingly frank. Four of the programs were rated in the PCR as successful, 4 partly successful and 2 unsuccessful. Three of the OED PPERs supported the PCR rating (2 successful, 1 partly successful) but one PCR rating was down graded from successful to partly successful.

24. Common concerns identified in the PCRs and PPERs include incomplete reform implementation, less than expected impacts from reforms (and inability to discern impacts), and unlikely sustainability. While the reports cite overly complex reforms and too many conditions, lack of success was largely put down to weakened commitment to reform by the government and weak institutional capacity. Some governments changed during the implementation process, partly as a result of unpopularity of the reforms, with the new government having less commitment to reform. Coalition governments had a difficult task in pursuing the reform process whilst maintaining support of minority parties, not all succeeding in this. Generally there seems to have been inadequate consultation and communication with the public at large.

25. While the desk review of the PCRs and PPERs for the 11 loans show generally limited sustainability, OED's recent evaluation of the PPER for PNG, and recent work by the evaluation consultant on M&E in the Cook Islands, indicate that some aspects of the reforms which seemingly had limited success at time of the PCR and PPER, have continued to progress. Political commitment might have waned, but the public service has continued to pursue some reforms. In this context it should be noted that program documentation and the studies cited above all refer to reform as taking time, yet the period of ADB involvement in the reform program loans has been 2 -3 years. Time needed for reforms to take place, the motivation to move reform agendas ahead, reform implementation issues and the implications for ADB operational designs needs further examination.

B. World Bank

26. In its 2008 Evaluation "Public Sector Reform: What works and why?" the World Bank noted that public expenditure and financial management was a component of almost all of their reform program support and that about two thirds of their countries that borrowed for this showed improvement. Fiscal crises had often motivated the governments to seek financial management assistance from the World Bank. Civil service reform was the second most common area of activity. However, the frequent failures in such reform seemed to reflect a lack of coherent strategy and of clear diagnostic tools, along with the inherent political difficulties.

27. The report identifies three factors contributing to success in different areas: (i) being realistic about what is politically and institutional feasible, as well as being opportunistic in preparing technical foundations for what might become feasible in the future; (ii) recognizing that enhancing technology is not enough by itself and that the most crucial part is changing behavior and organizational culture; and (iii) dealing with the basics first. It also notes that the evidence does not support either of two positions taken by some observers: that public sector reform is too difficult to be worth trying, or that public sector issues are so interlinked that only comprehensive solutions will work. Public sector reform has especially complex political and sequencing issues. It takes time, and needs strong country ownership.

C. Other Reports

28. Most PDMCs are also supported by one or more major bi-lateral partner. The FSM and RMI, for example, are supported by the United States through the Compact of Free Association, which provides substantial annual transfers for government recurrent and development expenditures (approximately equivalent to 65% of GDP in 2008), although on a declining basis and a portion of which is saved each year in a Trust Fund to provide for future fiscal needs. The United States Government Accountability Office's 2008 report *Compact of Free Association: Micronesia faces Challenges to Achieving Compact Goals* (GOA, 2008) cites limited prospects for achieving budget self-sufficiency and long-term economic advancement and lack of progress in implementing of policy reforms needed to enable economic growth.

IV. OBJECTIVES AND SCOPE OF SES

29. The objective of the evaluation is to assess the relevance, feasibility and overall performance of ADB's support for reforms in PDMCs. Specifically, the study will address three key questions: (i) did ADB support relevant reform needs; (ii) was ADB's approach to supporting reforms in the Pacific and use of the program loan modality and TA feasible; (iii) how can ADB improve its support to PDMCs for reforms? The study will identify factors that have influenced results and their sustainability, in order to identify ways to improve the relevance and feasibility of future ADB approaches to supporting PDMC reforms. The study will give specific attention to how the domestic and regional economic context, institutions and political economy factors and ties to traditional bi-lateral development partners have influenced the reform agenda, design, outcomes and impact of ADB's support to reforms in the PDMCs.

30. To assess ex-post, the relevance and feasibility of ADB's support, the SES will focus on 3 key questions:

- (i) **Did ADB support relevant reform needs?** The SES will examine whether the reform programs identified and addressed key constraints to economic growth, welfare improvements and poverty reduction, and the appropriateness of reform priorities and sequencing.
- (ii) **Was ADB's approach to supporting reforms in the Pacific and use of the program loan modality and TA feasible?** In assessing the feasibility of ADB's support for reforms among PDMCs the SES will assess the suitability of the program loan modality and its application in designs. In considering designs and implementation the SES will adopt an analytical framework for assessing the political economy of reforms in PDMCs, consistent with OED's SES update on program lending, and the approach in the recent Philippines Country Assistance Performance Evaluation. The assessment will include: (a) getting reform issues on the agenda, (b) managing reform complexity, (c) reforms achieved, (d) institutional capacity issues, and (e) reform sustainability issues. Understanding feasibility will be assessed by assessing the political economy of reforms including:
 - a. **Getting reforms on the agenda.** The study will assess the motives for how reforms were included in the reform agenda, and their relevance to assessed key constraints.
 - b. **Managing complexity.** The study will examine the issues that influenced the feasibility and adoption of reforms, including how ADB considered reformist and the status quo, decision making processes, public support or resistance. The extent to which gains and losses over time were identified

- during program and how this was factored into the feasibility assessment and were subsequently managed will be identified.
- c. **Reforms achieved.** The study will assess reform results and achievements to date in relation to goals, objectives. In addition, the study will assess the effectiveness of conditions, tranching and the use of program loan proceeds for adjustment costs and/o budget support.
 - d. **Institutional capacity issues.** To assess the institutional feasibility of the reform measures, the SES will identify institutional capacity issues that affected reform design and implementation, including capacity to analyze and manage reforms. ADB advisory support will be assessed including the role of consultants. Complementary support from and the role of other development partners will be identified. The influence of governance and cultural/traditional issues and constraints will be assessed.
 - e. **Reform sustainability.** Issues supporting or constraining reform sustainability will be identified. This will include assessing the processes of change management used.
- (iii) **How can ADB improve its support to PDMCs for reforms?** Based on findings on the relevance and feasibility of past support for reforms and related TA's, and the analysis of conditions and tranching for programs, the study will identify strengths to build on, weaknesses to address, opportunities to capitalize upon and risks to manage. This will include and examination of the program loan modality compared to other forms of assistance such as policy dialogue, TA, support through sector specific channels, and collaborative work with other development partners. As shown in other DMCs ADB has played a role as an agent of change through support for reforms. The strategy 2020 identifies 5 drivers of change: (a) private sector development and private sector operations; (b) good governance and capacity development; (c) gender equity; (d) knowledge solutions, and (e) partnerships. Specific attention will be paid to regional cooperation in the Pacific. These issues cut across the institutional and political dimensions covered above, and will be assessed separately to assist in identifying good practices and strategic considerations for future support for reforms in the context of ADB's corporate objectives.

V. APPROACH AND METHODOLOGY

31. In preparing this approach paper, consultations have been held with staff of OED and PARD: the SES will have a collaborative working relationship with staff of PARD. The study will adopt elements of a meta-evaluation approach, building on past OED evaluations and work of PARD, but augment this by further desk review and field work where interviews will be held with key informants (stakeholders involved in both the design and implementation process, including officials, politicians, members of civil society and officials of other international development partners in PDMCs) to draw on their experience, validating and adding to findings.

32. Phase I of the study will involve a desk review of reports (referred to in paras.11–27 above), including the 10 PCRs and 4 PPERs. The evaluation will draw on these PCRs and PPERs, and in the process thus validate (or otherwise) the PCR findings. Similarly it will act as an update on the previous studies. Limited evaluative analysis has been done on the Samoa reform program, which is often cited by PARD and others as successful in contrast to other programs, and similarly for aspects of the Tonga and Vanuatu programs; the study will fill this gap. In addition to reviews of the program loans, the evaluation will assess TA's carried out in support of reforms.

33. Phase II of the study will involve in-country validation and assessments of the political economy of reforms with a view to understanding factors that influenced formulation of the reform agenda; reform complexity and its management; achievement of reforms; institutional capacity to effect reforms; reform sustainability. This part of the evaluation will require field visits and key informant interviews to understand from respective PDMC and stakeholder perspectives the needs for public sector reform, political processes, factors affecting reform passage, and identifying country views of reform impacts and ADB's contribution, and overall validation of PCR findings.

34. The evaluation will follow standard OED evaluation guidelines, principles and procedures, ensuring independence of the study and avoiding conflicts of interest.¹³ Appendix 2 part A summarizes the Evaluation Framework, while part B, the Evaluation Design Matrix, sets out questions that the SES will address in conducting its analysis. In order to answer the three wider questions in para 29, paras.35-39 below set out the specific questions the SES will seek to answer:

A. Strategic Assessment of ADB's Support for Reforms

35. The strategic assessment of ADB's assistance will address the following questions:

- (i) **Reform Context.** What were key country conditions, trends, and constraints in PDMCs? Were ADB reforms consistent with the country's overall development strategy? Were reforms consistent with ADB's country and/or regional assistance strategy? How were they being addressed by the Government and other relevant stakeholders?
- (ii) **Selectivity.** Did the reforms address key constraints within contextual circumstances? Did ADB operations consider Government priorities, reform initiatives and reform ownership? How did ADB complement the activities of other development partners supporting similar issues?
- (iii) **Sequencing and continuity.** Were ADB operations adequately sequenced taking into consideration country development strategies, the Government's reform agenda and process, and capacity constraints, other influences (e.g. major development partner assistance)? Was there sufficient continuity in ADB's country assistance to maximize development effectiveness of operations

B. Development Effectiveness of ADB Financed Reforms

36. ADB's contributions to development results will be assessed by addressing the following issues:

- (i) **Formulation, analytical work, technical assistance and policy dialogue.** Was ADB's economic and sector work in PDMCs valid, result in a focus on key constraints, and how did findings and dialogue feed into the design of reform programs? How well was ADB equipped to handle policy dialogue on pertinent development issues? Was adequate reform ownership built? Was ADB's assistance formulated and designed to address relevant objectives? Was there

¹³ As the evaluation consultant was responsible for preparing the FSM Program Loan in 1996–97 when he was staff in the OPO, OED staff and the regional consultant will evaluate this reform program loan, drawing on the PPER prepared by OED in 2003.

an appropriate framework for ADB and other major external sources of financing? Was the program loan the right modality and what was the justification of its selection? How did PDMCs perceive the quality of ADB staff and consultant resources used? Was there an adequate framework for evaluation?

- (ii) **Outputs and Outcomes.** What were the key outputs and outcomes of ADB's reform support in PDMCs and how do they compare to envisaged policy and institutional objectives? What factors affected outputs and outcomes compared to feasibility assessments? What and how did political economy factors affect the achievement of program objectives? Have public sector reforms leveraged private sector development where envisaged? How have conditions performed in terms of timeliness and in bringing about effective reform? How did exogenous factors influence outcomes (positively and negatively)? What factors were within and outside government and ADB control? Are there common factors that affected program performance? Has ADB assistance helped to build capacity? How does the standard of ADB's assistance compare with other, similar development partners? What approaches to providing advice and capacity development have worked or otherwise?
- (iii) **Sustainability and dissemination.** Has the borrower continued to commit to the reform objectives? What sociopolitical and macroeconomic factors have positively or negatively affected reform sustainability? Were there any major policy reversals? Did institutions have the capacity to support reform implementation? What is the likelihood that these outputs and outcomes can be sustained, considering fiscal, political, and social conditions? To what extent were successful ADB supported reforms disseminated and replicated to other PDMCs?
- (iv) **Institutional development, contributions and synergies.** What was ADB's contribution to improving national and institutional capacity and at what level (e.g. economic management, civil service reform, legal and regulatory systems, sector development)? share of financing compared to overall adjustment needs, Government's contribution and other external assistance? Did ADB reforms efforts contribute to improving the role and effectiveness of civil society capacity and nongovernment organization? Did ADB spearhead any new discussions and approaches to reform challenges in PDMCs? What was ADB's role compared to that of other development partners? Where did ADB's assistance make a difference to reforms and development in PDMCs?
- (v) **Impact.** To what extent has ADB contributed to long-term changes in development conditions? How has ADB contributed to sustainable economic growth, human development, and good governance, and to ADB's thematic priorities, in particular capacity development and gender development? Were expectations met?

C. Evaluation Criteria

37. Based on the development effectiveness assessment ADB's support to reforms will be evaluated using relevance, effectiveness, efficiency, institutional development, impact and sustainability criteria. Sub-criteria include the following:

- (i) **Relevance.** (1) focus on critical constraints to development and validity of diagnosis, (2) consistency with ADB country and related sector strategies, (3) consistency with government country and sector priorities, (4) supportive of essential policy and institutional reforms of the government, (5) designed to

- consider conditions in the country and scope for sector development, and (6) extent of reform ownership, (7) coordinated with other key development partners in the sector, (8) program loan was readily evaluable.
- (ii) **Effectiveness in achieving reform objectives.** (1) extent to which main program objectives were achieved including expected outputs, outcomes and impacts; (2) extent to which respective political economy factors were conducive to the achievement of program objectives; (3) extent to which program financing and other macroeconomic factors and reforms contributed or detracted from reform outcomes; (4) extent to which the program contributed to fulfilling key policy and institutional development goals; (5) extent to which program reforms contributed to the continuity of reforms; (6) extent to which factors favoring or detracting from effective reform influenced the outcome.
 - (iii) **Efficiency in resource use.** (1) socioeconomic benefits compared to costs; (2) extent to which ADB assistance efficiently leveraged realization of outputs and outcomes; (3) public expenditures made adequate provision to meet the government's portion of adjustment costs; (4) availability of other development partner assistance; (5) extent to which assistance was formulated and implemented in a cost-effective and efficient manner.
 - (iv) **Sustainability of results.** (1) Absence of major policy reversals; (2) conduciveness of fiscal, political, and institutional conditions; (3) conduciveness of current macroeconomic setting to support reform intentions; (4) extent of lasting improvement of government institutional capacity for formulation and implementation of policies and the management of sector programs and investments; (5) Contribution to improving civil society and nongovernment organization capacity to support reforms; (6) contribution to private sector development; (7) key risks to sustainability.
 - (v) **Impact of outcomes.** (1) anticipated and unanticipated impacts identified; (2) impacts attributable to the program; (3) counterfactual scenario; (4) channels of effect and impacts.

1. Strengths, Weaknesses, Opportunities, and Threats

38. A range of good practices will be identified from the SES, summarized by strengths to build into designs, weaknesses to avoid, opportunities to capitalize upon, and threats to manage. This will include a comparative assessment of alternative approaches to supporting reforms.

2. Lessons Identified and Implications for Future Strategy and Operations

39. Based on the evaluation of the ADB's assistance program and strategy positioning, its contribution to development results in PDMCs, and ADB's response and performance, and overall results and development effectiveness, the implications for ADB's future assistance for supporting reforms in PDMCs will be assessed as follows:

- (i) **Lessons Learned and Better Practice.** What lessons and better practice can be identified from the past experience for future ADB assistance? Should ADB maintain its strategic focus or widen assistance? Should any areas of assistance be discontinued or phased out? In what areas could ADB provide more assistance and better practice? Is the current trend toward program lending in support of improving public resource management to address MDGs, the private sector enabling environment, and direct support to LGUs appropriate or should

support return to urban and rural development projects? Is ADB equipped for this task? What approaches to advisory support and capacity development work best, and what options might work better?

- (ii) **Future Strategic Considerations** How should the future partnership between PDMCs, ADB and bi-lateral development partners be developed in supporting future reforms and development?

40. The evaluation will be led by Richard Bolt, Principal Evaluation Specialist OED2. An international economic/public sector reform consultant well experienced in evaluation and all the Pacific countries covered under the study has been recruited to support the Evaluation Specialist in the desk review and consultations in HQ, and in the field evaluations of the program loans and related TA, and assist in preparing the report (5 months). Three other regional consultants will be recruited from the Pacific region (1 month per consultant) with experience of the institutional, cultural and political economy of Melanesia (Solomon Islands and Vanuatu), Micronesia (FSM, RMI), and Polynesia (Cook Islands, Samoa, Tonga). OED prepared a PPER for the PNG program in 2008 to provide inputs to this study. A national OED staff will assist the evaluation, while a national consultant will assist with data aspects, including a trend analysis on macroeconomic developments. The Terms of Reference are attached as Appendix 3. The evaluation team will liaise closely with PARD. The proposed schedule for the SES is:

Phase I: Desk Review – CPSs, RRP, PCRs, etc.	July – Oct 2008
Submission first draft evaluation approach paper	I August 2008
Finalization evaluation approach paper; approval by DG	I September 2008
Literature, report review, Macroeconomic and constraints analysis	July – Oct 2008
Phase I findings	October 2008
Phase II: In-country Validation	Oct – Nov 2008
Mission Cook Islands, Samoa (Consultant only)	October 2008
Mission FSM, RMI (Staff, Consultant)	October 2008
Mission Sydney, Vanuatu, (Staff); Tonga, Fiji (Consultant)	November 2008
First draft report	III January 2009
OED internal review and revisions	I February 2009
DG approval for Interdepartmental circulation	III February 2009
Revision and finalization	II March 2009
DG Approval	IV March 2009

- attachments: Appendix 1: Summary Description ADB Reform Program Loans
- Appendix 2: Evaluation Framework and Design Matrix
- Appendix 3: Terms of Reference for Consultants