

**ANNUAL REPORT OF THE DEVELOPMENT EFFECTIVENESS COMMITTEE
TO THE BOARD OF DIRECTORS**

September 2004

CONTENTS

	Page
I. INTRODUCTION	1
II. STATUS OF IMPLEMENTATION OF KEY RECOMMENDATIONS BY THE DEVELOPMENT EFFECTIVENESS COMMITTEE IN 2002–2003	3
III. ANNUAL REPORT ON LOAN AND TECHNICAL ASSISTANCE PORTFOLIO PERFORMANCE FOR THE PERIOD ENDING 31 DECEMBER 2003	8
IV. ANNUAL REVIEW OF EVALUATION ACTIVITIES IN 2003	11
V. OVERALL ASSESSMENT	13
APPENDIX	
Development Effectiveness Committee Meetings Held from August 2003 to July 2004	14

I. INTRODUCTION

1. The Development Effectiveness Committee (DEC) of the Board of Directors was established to assist the Board in carrying out its responsibility for ensuring that the programs and operations of the Asian Development Bank (ADB) achieve development effectiveness. For purposes of the DEC's work, "development effectiveness" is considered to be achieved if (i) ADB's programs and operations in furtherance of its policy and strategy objectives result in the desired outcomes, and (ii) these programs and operations make efficient use of ADB's available resources. Such development effectiveness is continuously assessed through ADB's operations evaluation program. To ensure the independence of ADB's operations evaluation, the Operations Evaluation Department (OED) reports directly to the Board through the DEC.

A New Context: Independence of OED

2. In December 2003, the Board approved the President's recommendation of changes in the reporting structure and organizational arrangements for OED effective January 2004.¹ With an independent OED now reporting directly to the Board through the DEC, instead of to the President, there is a new context for operations evaluation in ADB and a new responsibility and accountability structure governing OED, Management, and the Board in relation to evaluations.

3. Since OED now reports directly to the Board through the DEC, the Board instead of Management is directly responsible for the adequacy, efficiency, quality, and independence of ADB's operations evaluation. The Board's role, through the DEC, increases from quality monitoring to quality control of evaluation processes. On behalf of the Board, the DEC: (i) engages Management in responding to evaluation findings; and (ii) oversees, rather than suggests, OED's work program.

4. Management's role changes from approver of evaluations to active respondent and decision maker on what actions ADB can or should take on specific evaluation recommendations. Correspondingly, OED's accountability increases from that of recommending Management approval of an evaluation to that of finalizing and disclosing an evaluation with full responsibility for its content and recommendations.

5. Accordingly, OED, Management, and the DEC have closely collaborated in establishing a new approval, review and disclosure process for OED reports so that the objectives of independent OED evaluations are observed and realized. First, an OED report is finalized by OED independently of Management, but after following the normal interdepartmental review process and consultation with member governments involved in the evaluation. Second, Management's responses to the recommendations are invited. Third, on behalf of the Board of Directors, the DEC considers OED's major reports together with Management's responses (if any). Finally, the DEC Chairperson's summary of the DEC's discussion of a report, as well as Management's responses, are publicly disclosed so that all ADB stakeholders are informed of the recommendations as well as the views and responses to these within ADB. The DEC fully endorses and promotes this transparency in the institutional learning process.

¹ ADB. 2003. *Enhancing the Independence and Effectiveness of the Operations Evaluation Department* (R263-03). Manila.

6. In its new role of ensuring an enabling ADB environment for OED to exercise full independence in its evaluations, the DEC finds that it needs to navigate through heretofore uncharted interaction processes between an independent department, the Management, and the Board. Adjustments not only in business process but also in resource allocation and management behavior may be required. As we all learn how to interact in the next year or two of transition, the DEC encourages all parties to interact constructively and with patience, bound by a common mission to use independent evaluation as a means to the continuous improvement of ADB's development effectiveness.

Composition of the DEC

7. During the period covered by this annual report, August 2003 to July 2004, the DEC was composed of the following members:

Jusuf Anwar, Chairperson
 Emile Gauvreau
 P. G. Mankad
 Osamu Tsukahara
 Troy Wray
 ShaolinYang

Agenda of DEC Meetings, August 2003 to July 2004

8. The DEC meetings held in the period covered by this annual report included a selection of studies that the committee considered to be of high priority in ADB's medium term agenda, of high relevance to ADB's medium term work program, and representative of the wide range of issues and challenges faced by ADB at the project, country, sector, and institutional levels. A complete listing is given in the Attachment. Compared to the DEC's previous review period (August 2002 to July 2003), the evaluation reports considered by the DEC in this past period included one more special evaluation study and, for the first time, a sector assistance program evaluation.

The DEC's Annual Report

9. DEC is expected to review ADB's operations evaluation program achievement in the past fiscal year in order to be able to report to the Board its assessment of the adequacy and efficiency of that program. To ensure that post-evaluation lessons learned regarding development effectiveness have an impact on current operations, the DEC is also responsible for reviewing the annual performance of loan and technical assistance portfolios under supervision. Following last year's practice, the DEC finds it can best fulfill its responsibility by reporting to the Board on the observations, conclusions, and recommendations from the its detailed reviews of three annual summary reports prepared by OED:

- (i) *Status of Implementation of Key Recommendations by the Development Effectiveness Committee in 2002–2003*
- (ii) *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2003*
- (iii) *Annual Review of Evaluation Activities in 2003.*

II. STATUS OF IMPLEMENTATION OF KEY RECOMMENDATIONS BY THE DEVELOPMENT EFFECTIVENESS COMMITTEE IN 2002–2003

10. This status report was first commissioned by the DEC in 2003 to monitor implementation that the DEC had made in 2002. The DEC asked OED to prepare it annually thereafter, on a cumulative basis. Its purpose is to monitor actions implemented by Management and staff on the Committee's previous recommendations. This is important because, unless the DEC's recommendations are acted upon in a timely and effective manner, their value will diminish. Also, since the Committee's membership can change every two years, this provides a mechanism for continuous monitoring of and accountability for actions being taken by ADB on DEC recommendations.

11. Table 1 provides detailed explanation of the status of (i) two recommendations made by DEC in its 2002 annual report whose implementation had remained unsatisfactory when last reviewed in 2003, and (ii) 12 recommendations made in its 2003 annual report.

12. Of the two recommendations carried over from 2002, the first, on introduction of project-readiness good practices to address the issue of continued long delays in loan effectiveness, remains unsatisfactory in its implementation and will be reassessed by the DEC in 2005. The second, on annual shortfalls in accomplishment of project completion reports (PCRs) and technical assistance completion reports (TCRs) was incorporated into two separate recommendations in the DEC's 2003 annual report, and are reassessed as 2003 recommendations.

13. Of the 12 recommendations made in 2003, three remain unsatisfactory in their implementation as of July 2004: (i) better understanding of reasons for and implications of the trend to reduced or negative net resource transfers to borrowing members; (ii) improved achievement rate on TCRs, specifically by some of the knowledge departments such as ERD and RSDD; and (iii) increased pace of delegation of loan administration from Headquarters to the resident missions. These all will be reassessed by the DEC in 2005.

14. The *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2003*, which is discussed later in this report, provides updated information and further recommendations on the issues of reduced net resource transfer and slow pace of delegation to resident missions. No further recommendations are made to address the issue of unsatisfactory achievement rates on TCRs.

Table 1: STATUS OF IMPLEMENTATION OF KEY RECOMMENDATIONS BY THE DEVELOPMENT EFFECTIVENESS COMMITTEE IN 2002–2003

DEC Recommendations	Action(s) Taken/Proposed	Department/ Office Responsible	DEC Assessment of Implementation as of July 2004
A. Annual Report on Loan and Technical Assistance Portfolio Performance (<i>the Annual Report</i>) for the Period Ending 31 December 2001 (Discussed by the DEC on 30 May 2002)			
1.	The DEC was concerned about the time taken for loans to be effective as long delays result in an inefficient use of resources. The DEC believed that it was time to introduce a “project readiness filter” as a management tool to ensure that conditions set originally for Board consideration are not deferred to loan effectiveness, possibly delaying the latter.	In June 2002, COSO revised PAI 1.01: Initial Project Administration Activities to incorporate and recommend a number of good practices relating to project readiness (see Section C: Actions During Loan Processing, paragraph 8 of PAI 1.01).	<p>COSO; SPD; RDs</p> <p><i>Remains unsatisfactory.</i></p> <p>As of May 2003, the DEC considered that actions taken on delays in loan effectiveness, as reported in <i>the Annual Report</i> for the period ending 31 December 2002, were unsatisfactory, despite the action already taken by COSO.</p> <p>As of July 2004, the DEC has noted from <i>the Annual Report</i> for the period ending 31 December 2003 that the sharp increase in average time from loan signing to effectiveness reported in 2002 did not improve in 2003. <i>The Annual Report</i> infers that application of the project-readiness good practices may need to become more stringent. The DEC finds that actions as reported to date remain unsatisfactory and will again reassess the status in 2005.</p>
2.	The DEC noted a pattern of some departments having persistently met their targets for project completion reports (PCRs) and technical assistance completion reports (TCRs) in the past five years while others showed frequent shortfalls. The DEC recommended that Management look into the issue of continued annual shortfalls in accomplishment of PCRs and TCRs, which appeared to be a matter of inadequate management at the department level.	In early 2003, COSO (i) highlighted to Management the 2002 PCR and TCR performance of the four organizational groupings and individual departments and offices; and (ii) recommended increased oversight for those departments and offices with recurring shortfalls. RDs would closely monitor the achievement of PCR and TCR targets at quarterly project administration meetings and these were closely monitored by sector divisions and PAUs throughout the year. MKRD and SARD had expected that their 2003 PCR and TCR programs would be completed as scheduled.	<p>COSO; RDs</p> <p>In May 2003, the DEC considered that the achievement rate for PCRs remained low and noted that the rate for TCRs was the lowest in five years, as reported in <i>the Annual Report</i> for the period ending 31 December 2002.</p> <p>Accordingly, in the DEC’s 2003 annual report to the Board, the DEC repeated its concern about what it considered still low achievement rates [see B.6 and B.7 below].</p>

DEC Recommendations	Action(s) Taken/Proposed	Department/ Office Responsible	DEC Assessment of Implementation as of July 2004	
B. Annual Report on Loan and Technical Assistance Portfolio Performance (<i>the Annual Report</i>) for the Period Ending 31 December 2002 (Discussed by the DEC on 7 May 2003)				
1.	The DEC believed that <i>the Annual Report</i> should not shy from being more evaluative by delving beyond the statistics and analyzing, more definitively, the reasons behind annual trends in portfolio performance indicators.	<i>The Annual Report</i> for the period ending 31 December 2003 made marked progress in the evolution to a more evaluative report. OED set the objective of making <i>the Annual Report</i> an integral part of ADB's managing-for-results framework. For the first time, operations evaluation missions were carried out to provide additional inputs to the report. Also, as a significant new initiative, the report for 2003 included the results of four special investigations, including that on project performance measurement and management.	OED	<i>Satisfactory</i>
2.	By country, more than half of the borrowing DMCs had a negative net resource transfer in 2002. The DEC was concerned by this outcome and suggested that the reason behind this phenomenon be examined thoroughly.	<i>The Annual Report</i> for the period ending 31 December 2003 reported a total negative net resource transfer of -\$5.3 billion from ADB to its borrowing DMCs, even lower than -\$1.3 billion in 2002, although the 2003 figure was largely due to prepayments made by only three DMCs (Republic of Korea, PRC, and India). However, a systematic analysis of the reasons behind negative resource transfer was not yet available.	COSO, OED	<i>Unsatisfactory</i>
3.	The DEC was concerned that a high number of TAs was reported as completed but not yet closed. The DEC recommended that some mechanisms be devised so that TA accounts are closed as soon as TAs are completed.	<i>The Annual Report</i> for the period ending 31 December 2003 reported that the number of TAs recorded as completed but not yet closed in 2003 declined by 24% since 2002, or back to the relatively low level of around 300 in 2000. This was considered a significant improvement although more progress was needed since the timely closure of completed TAs with cost savings would release these funds for other priority needs. Some of the delay was caused by the need to ensure that all outstanding claims had been lodged.	COSO, OED	<i>Satisfactory</i>
4.	The DEC was concerned about the increasing rate of loan cancellation and recommended that OED further investigate this matter.	<i>The Annual Report</i> for the period ending 31 December 2003 reported that rate of cancellation of surplus loan funds remained an issue. Nevertheless, for the first time an in-depth analysis based on 220 project completion reports (PCRs) was accomplished, yielding a better understanding of the reasons for cancellation and a suggestion that the performance issue was not one of minimizing the amount of cancellations but of ensuring that these were made in a timely way, so that the savings could be promptly reallocated. Furthermore, a Special Evaluation Study on Project Cost Estimates, circulated in July 2004 and discussed by the DEC in August 2004, examines the relationship between the trend of cost underruns and loan cancellations.	OED	<i>Satisfactory</i>

DEC Recommendations		Action(s) Taken/Proposed	Department/ Office Responsible	DEC Assessment of Implementation as of July 2004
5.	The DEC found the country sections of <i>the Annual Report</i> (Appendix 3) useful and recommended that these sections be referred to as inputs into all country strategies and programs (CSPs) and country strategy and program updates (CSPUs). The DEC appreciated the table on summary portfolio performance by country and suggested including a column on “at risk by loan amount”.	Appendix 3 of <i>the Annual Report</i> for the period ending 31 December 2003 reported on country portfolio performance for each DMC with an active portfolio. The contents were discussed with the regional departments (RDs) as inputs to all CSPUs and any CSPs to be prepared in 2004. Appendix 2 of <i>the Annual Report</i> , a table summarizing portfolio performance indicators by country, now included columns giving the number of loans and total loan amounts at risk by country.	OED	<i>Satisfactory</i>
6.	The DEC considered the preparation of project and TA completion reports an important part of ADB's project performance management process. Though there was noticeable improvement in the achievement rate on project completion reports (PCRs)—from just over 70% in 2000 and 2001 to 84% in 2002, the Committee considered this rate still low and requested that regional departments (RDs) provide explanations for the delays.	<i>The Annual Report</i> for the period ending 31 December 2003 noted that the achievement rate for PCRs improved dramatically from 84% in 2002 to 91% in 2003. Based on more in-depth examination than in past years, the reasons provided by RDs for not completing a PCR program in 2003 were summarized in <i>the Annual Report</i> , the most common reasons being staff constraints and waiting for information from the government. ECRD, MKRD, and SARD achieved their PCR programs in 2003.	RDs	<i>Satisfactory</i>
7.	The DEC was disturbed that the achievement rate on TA completion reports (TCRs) in 2002 was the lowest in 5 years. The DEC noted that the worst performers were some of the knowledge departments such as ERD and RSDD. The DEC requested that the heads of these departments explain their low achievement rates on TCRs.	<i>The Annual Report</i> for the period ending 31 December 2003 noted that the achievement rate of TCRs rose to 83% in 2003, the highest level in the last 5 years. RDs had a high level of achievement (82–106%). However, RSDD achieved only 46% of planned TCRs and ERD achieved 65%. At the DEC meeting to discuss <i>the Annual Report</i> covering 2003, Director General, RSDD provided an explanation and said he expected achievement would be significantly higher in 2004.	RDs, knowledge departments	<i>Unsatisfactory</i>
8.	The DEC was disappointed with the slow pace of delegation of loan administration to resident missions (RMs). The Committee requested Management to share with the Board the results of the ongoing review of the RM Policy.	<i>The Annual Report</i> for the period ending 31 December 2003 included a special investigation on delegation to RMs. The investigation concluded that, despite large differences among RDs and mixed results among RMs, the proportion of projects administered by RMs could be increased significantly and the process of delegation should be accelerated.	RDs	<i>Unsatisfactory</i>

DEC Recommendations	Action(s) Taken/Proposed	Department/ Office Responsible	DEC Assessment of Implementation as of July 2004	
C. Annual Review of Evaluation Activities in 2002 (Discussed by the DEC on 18 June 2003)				
1.	The DEC recommended that, in the future, the AREA should be more evaluative in nature, proceeding beyond statistical reporting of results.	The structure of the <i>Annual Review of Evaluation Activities</i> (AREA) in 2003 changed from the previous years'. The 2003 AREA focused more on the findings and conclusions of broader evaluations such as country and sector assistance program evaluations as well as impact and special evaluation studies in 2003. In addition, the 2003 AREA included for the first time two analyses based on evaluation findings over a ten-year period: (i) an assessment of the consequences of project design quality on project results; and (ii) an ADB-wide assessment of results for TA operations. Future AREAs will include a theme chapter.	OED	<i>Satisfactory</i>
2.	The DEC recommended that ADB's evaluation activities be planned along a more systematic and themes-based direction in the future in order to have a deeper and institutionalized impact on ADB's operations.	OED is now preparing a work program over a three-year period with more emphasis on broader evaluations in the form of special and impact evaluation studies, evaluations of policies and procedures, and country and sector assistance program evaluations, some contributing to an overall theme. These broader evaluations are selected on basis of suggestions from operations and central departments, and the DEC.	OED	<i>Satisfactory</i>
3.	The DEC noted that implementation delays and significant cost variations were recurring issues and ADB should be able to come up with some concrete results and improvements in these areas in the future. The DEC suggested that a mechanism be set up to improve cost estimates.	The Special Evaluation Study on Project Cost Estimates was circulated on 30 July 2004 and discussed by the DEC on 25 August 2004. The study contained recommendations on improving estimation processes for project costs.	OED	<i>Satisfactory</i>
4.	The DEC recommended that the time specificity of follow-up actions should be further improved.	There has been a small improvement. OED staff have been reminded of this requirement.	OED	<i>Satisfactory</i>

**III. ANNUAL REPORT ON LOAN AND TECHNICAL ASSISTANCE
PORTFOLIO PERFORMANCE FOR THE PERIOD ENDING
31 DECEMBER 2003**

15. Following its terms of reference, the DEC met with staff on 7 July 2004 to discuss the *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2003* (the AR), which was circulated to the Board on 9 June 2004 (Document IN.98-04). On behalf of the Board, the DEC has reviewed the annual evaluation of ADB's public sector, technical assistance, and private sector portfolios under implementation, their structures, profiles, performance indicators and ratings. This is the third year OED has prepared the AR. Under the ADB reorganization of 2002, the responsibility for AR preparation was transferred from the Central Operations Services Office (COSO) to OED. While prepared by OED, the report relies on the statistical information regularly gathered and assembled by COSO and is the culmination of quarterly portfolio updates provided by COSO to the DEC during the performance year.

16. The purpose in shifting the responsibility for AR preparation to OED was to provide more evaluative contents to the report. This will help deliver on the Medium-Term Strategy requirement that OED undertake regular portfolio evaluation reviews by 2005 to support the assessment of development impact and country performance. In this light, a year ago, in reviewing the AR for the period ending 31 December 2002, the DEC had recommended that, if the transfer of report preparation to OED was to add value to the learning process, the report needed to be more evaluative, delve further beyond the statistics, and analyze more definitively the reasons behind annual trends in portfolio performance indicators. The DEC finds that this year's AR has gone a long way towards that goal and commends OED on this achievement, and for preparing a comprehensive and informative AR.

17. The DEC also appreciates, and calls the attention of the Board to, the four special investigations whose results are also included in the AR this year: on project administration by resident missions, project performance measurement and management, loan cancellations, and the country portfolio review process. These add significant value to the AR in that they have been based on in-depth analysis including mission work, and focus on processes directly related to portfolio performance.

18. Hence, in this report, the DEC does not wish to repeat the changes and trends already well highlighted in the AR. Rather the DEC would like to focus the Board's attention on what it considers the highest priority issues and recommendations. Of the 16 recommendations specified in the AR, the DEC recommends prioritization of the following.

19. **Measurement of development results.** The DEC agrees that there is a basic problem in trying to use the ratings in the project performance report (PPR) both for portfolio performance measurement and for portfolio performance management. A current situation, in which PPR ratings cannot be relied on to identify all projects that should be rated as problem or at risk, should not be tolerated. The PPR should be primarily a tool for portfolio performance *management*. Accordingly, to better measure the performance success of the portfolio, the DEC recommends that Management give very high priority to the report's principal recommendation (paragraphs 124–125) to pilot-test annual reporting on the production of outputs against projections in selected sectors. Such annual production of outputs, aggregated according to well-defined standard output classes, is envisioned to evolve into a results-based performance measure that would serve to more fully reflect ADB's contribution to development. It would, of

course, also serve to indicate institutional progress toward its reform agenda of managing for development results.

20. **Negative and declining net resource transfer.** The DEC agrees that the negative net resource transfer over the last two years (heavily influenced by prepayments) is an important issue because it may involve development effectiveness. What are its implications for ADB's poverty reduction strategy? A related development effectiveness question is ADB's heavy reliance on just a few large borrowers: two DMCs account for half of new lending. The AR rightly characterizes the risk not as an investment risk but a business risk: what if these few major borrowers suddenly find ADB's products no longer relevant, responsive, or competitive? The DEC is equally concerned that such a concentration of lending assistance may not be compatible with the overall goals of regional poverty reduction and regional development effectiveness. In its review of the previous AR in 2003, the DEC had suggested that the reason behind the phenomenon of negative net resource transfers in 2002 be examined thoroughly (Table 1, row B.2 above). The DEC remains unsatisfied with actions taken on this to date and recommends giving higher priority to the current AR recommendation that the reasons for the trend of reduced net resource transfer need to be further analyzed so the trend can be better understood, preferably on a country basis, and so that corrective action can be taken if called for.

21. **Project-readiness best practices.** The DEC considered the issue of loan effectiveness delays to be of high priority in its review of the AR in May 2002 and, in its report to the Board then, had suggested that it was time to introduce a "project readiness filter" as a management tool (Table 1, row A.1). On reviewing the statistics on loan effectiveness delays in 2003, implementation of the DEC recommendation was considered unsatisfactory; the DEC remains unsatisfied with progress on reviewing the AR this year. In the light of the persistently excessive loan effectiveness delays, the DEC recommends that project readiness criteria should graduate from being advisory to mandatory. This issue deserves the full attention of Management.

22. **Evaluation of private sector operations.** The AR acknowledges that while the risk rating and infection ratio used as indicators of private sector portfolio quality provide a measure of financial performance, there are no measures of the development effectiveness or development results obtained from ADB private sector operations until after completion. The DEC recommends giving high priority to the recommendation that measures of development effectiveness should be specified for private sector operations during design and monitored during implementation. The DEC intends to monitor results from the ongoing initiatives by OED together with the Private Sector Operations Department towards this goal.

23. **Delegation to resident missions.** The special investigation in the AR on delegation to resident missions (RMs) clearly concludes, "The proportion of projects administered by RMs could be increased significantly." It continues that "(while) the evidence of whether RM-administered projects perform better than those administered by headquarters is not clear-cut, ... nonetheless, the aggregate analysis does show that RMs have a higher success in bringing projects out of the at risk category." In its review of the previous AR in 2003, the DEC had already expressed disappointment with the slow pace of delegation of loan administration to RMs (Table 1, row B.8). The DEC remains disappointed with progress and therefore places high priority on the current AR's recommendation that the process of delegation to resident missions should be accelerated with contingent actions, including transfer of resources from headquarters, as appropriate.

24. **Management of TA portfolio.** Since its initial deliberations, the DEC has constantly expressed concern about the quality of TA management, efficiency, and, most importantly, development effectiveness. (The same concern is resonated in the DEC's review of 2003 evaluation results in the next section.) Managed so as to respond to real demand from DMCs, TA can be ADB's comparative advantage; supply-driven, it can be an inefficient and ineffective use of scarce ADB resources. The DEC strongly recommends that Management specify a concrete action plan for improving the management of the TA portfolio, including improvement in the achievement rate on TCRs (Table 1, row B.7) and application of a more strategic and results-based approach to TA resource allocation, particularly in the case of advisory TA. In this area, the role of resident missions should be strengthened. OED is asked to focus a future evaluation on the development effectiveness of advisory TA.

25. **Supervision of at-risk projects.** The AR analyzes that, overall, "the number of supervision days per project does not vary commensurate with the differences in portfolio performance". In fact, "in terms of staff days, projects at risk received 3 days less supervision than the average for satisfactory projects. This is indicative of a results and resource management problem whose correction is completely within the control of ADB. The AR concludes that "more progress is required in achieving the intended result of directing proportionately more resources to projects at risk". The DEC places high priority on the resulting recommendation that more flexibility should be allowed in budget and staff resource reallocation, both within and across departments, so that projects flagged as being at risk get extra supervision.

26. **Project implementation schedules.** The AR concludes that implementation schedules for projects need to be made more realistic from the start. The DEC strongly agrees, while also recognizing that there is often a tradeoff between project complexity and realistic scheduling, and therefore decreasing project complexity—as often recommended—could *per se* result in more realistic schedules. The AR recommends that to achieve more realistic implementation schedules, PPTAs should prepare critical path analyses to identify the critical path, expected task durations, and key milestones in project implementation, and that the project management software used to conduct the critical path analysis should routinely be used during project implementation. These are concrete and practical actions that the DEC highly recommends as well.

27. **A broader development effectiveness issue.** There is an issue of development effectiveness that goes beyond the scope of portfolio performance, on which the DEC's concern was triggered by the review of the AR and that DEC members would like an opportunity to address in the future, since it poses an important strategic and policy question. This is the AR's conclusion that ADB and DMCs may need to review the transaction costs of and value added by the conditions and processes they follow (for example, ADB's requirement for a fixed counterpart contribution to projects). More flexibility may be required "with a view to speeding up processes, lowering transaction costs, and customizing responses while not prejudicing development outcomes or good governance principles". The AR suggests that a greater focus on results and less on process is called for and that this would "allow more staff time to be allocated to achieving development outcomes". The DEC agrees.

Conclusion

28. The overall sense of the DEC is that while the five year trend continues to indicate an improvement in project performance of the public sector loan portfolio, with the proportion of projects at risk in 2002–2003 significantly lower than that in 1999–2001, there remains

significant room for improvement, particularly in the areas specified above, on which the DEC will continue to monitor ADB's actions.

29. In the context of the above observations and priority concerns, the DEC generally endorses the AR and its recommendations as summarized in paragraphs 124–126 of the report. The DEC encourages Management to take the report's recommendations—particularly the recommendations to which the DEC assigns high priority to—into account in planning the coming years' portfolio performance management. The DEC asks OED to monitor actions taken on all recommendations in the report.

IV. ANNUAL REVIEW OF EVALUATION ACTIVITIES IN 2003

30. The Annual Review of Evaluation Activities is OED's annual report on ADB's evaluation results for the latest completed fiscal year. It consolidates the information based on which the DEC can assess the adequacy and efficiency of ADB's evaluation program. The AREA is of primary significance as a background reference for the Board because it not only presents thematic evaluation issues cutting across countries and sectors, but also provides a comprehensive summary of the DEC's reviews of individual evaluation studies in its meetings throughout the year, all put together in one framework.

31. The DEC met with staff on 7 July 2004 to discuss the *Annual Review of Evaluation Activities in 2003* (the AREA) prepared by OED and circulated to the Board on 8 June 2004 (Document IN.95-04). The AREA, the twenty-sixth in the series, reports on the findings and recommendations of 38 evaluation reports and other evaluation activities in 2003, as well as provides a long term trend of evaluation results. In 2003, there were 22 project/program performance audit reports (PPARs), 6 technical assistance performance audit reports (TPARs), 2 country assistance program evaluations (CAPEs), 1 (the first) sector assistance program evaluation (SAPE), 1 impact evaluation study, 4 special evaluation studies, and 2 annual reports. Other evaluation activities included preparing a draft paper on good practices in evaluation of policy-based lending for the Evaluation Cooperation Group (ECG) of the MDBs.

Scope of Evaluations

32. The DEC supports the gradual shift in ADB's operations evaluation program towards country and sector level assistance program evaluations as well as thematic and special evaluations, while maintaining a required minimum of individual operations evaluations to continue the accumulation of lessons learned on the ground. Just as the lessons learned from an individual operation performance audit reports are fed into the design of a related new operation, the lessons learned from a country assistance program evaluation (CAPE) should feed into the next country strategy and program update (CSPU); those from a sector assistance program evaluation into the review of a sector strategy; those from evaluation of the effectiveness of ADB policies, procedures and practices, into future reviews of these; and those from annual reviews of overall evaluation results, into future medium term strategies (MTS) of ADB.

33. A year ago, in reviewing the AREA for 2002, the DEC had suggested to OED that the report needed to be more evaluative in its nature, proceeding beyond statistical reporting. It should set new targets for the evaluation program in the medium term as well as suggest measures by which the evaluation process could become more effective and the success rates of evaluated projects could continue to improve. The DEC finds that this year's AREA has

indeed achieved the desired increase in evaluative content, yielding certain practical suggestions that should be implemented and monitored.

Focus of Evaluations

34. The DEC suggests that future AREAs might consider adopting a thematic focus for each year's review. This would allow each succeeding year's review to add specific incremental value in a multiyear learning process. OED has responded positively to this idea and so the DEC intends to consider together with OED certain possible themes for future annual reviews. The DEC is happy to report that, for the first time and in the context of reviewing OED's work program for 2005 (which will be submitted to the full Board for approval), the DEC and OED are discussing the work program in a three-year timeframe, 2005–2007, with themes being targeted for each year.

Long-Term Trend

35. The DEC notes that the evaluation results for 2003 strengthened the long-term trend first analyzed in the previous year's review: that a trend of declining success rate for projects completed since 1974 was reversed in 1989 and has steadily increased since then. For now, the DEC can only interpret this sustained 15-year trend as a significant, positive indication that projects have increased in their development effectiveness. Factors may range from change in the mix of borrowers, to increased capacity in the developing member countries, to successful and gradual incorporation of lessons learned in ADB assisted projects. The DEC has encouraged staff to further analyze the reasons behind this positive trend so that there is a clearer understanding of what has gone well and what can be done better. The DEC considers this evaluation of primary importance to ADB's future.

Evaluation of Technical Assistance

36. DEC members appreciate the candidness of the chapter on evaluation of technical assistance (TA), which identifies areas for improvement. The DEC considers the report's suggestions to be of high priority because these involve the basics for adequate and efficient evaluation of this key ADB instrument. TA completion reports need to increase in quality and be made more useful as learning tools. Lessons learned from TA evaluations need to be synthesized at the country level so they can be used more effectively for coordination with other agencies in planning and implementing country TA; in this context, the DEC has particular concern about the effectiveness of capacity building TA. The evaluation of TA needs to be more discriminating and results-based in distinguishing successful TA from less than successful TA. Otherwise, as the report states, the hard lessons that need to be learned may be obscured.

Specificity of Follow-up Actions

37. Finally, the DEC concurs with the report's suggestion that responsiveness by borrowers and ADB departments to follow-up actions recommended in individual evaluation reports could further improve if the follow-up actions are more specific or have a timeframe specified.

Conclusion

38. The DEC generally endorses the AREA and its conclusions as summarized in paragraphs 184–191 of the report. The DEC asks OED to initiate the necessary actions on the suggestions that OED can exercise control over, and to monitor actions by the responsible

departments on other suggestions made in the report. For instance, the AREA suggests that adequate incentives or recognition be provided to divisions and staff for active administration and reformulation of operations that may have been poorly designed or overtaken by events. The DEC expects that ADB's new human resource strategy will reflect this recommendation.

V. OVERALL ASSESSMENT

39. The DEC is satisfied that ADB's operations evaluation activities in 2003 were adequate and efficient, and so reports to the Board. Areas for improvement in ADB's development effectiveness are noted by the DEC in this annual report.

40. The DEC members take this opportunity to thank the Chairman of the Board for the trust he has placed on them to carry out this important responsibility on behalf of the Board.

41. The members of the Board are advised of Board actions that need to be taken in the immediate and near future in the new context of the organizational independence of OED:

- (i) approval of OED's work program for 2005; and
- (ii) approval of OED's administrative budget for 2005 in a separate resource envelope as part of the overall ADB administrative budget.

**DEVELOPMENT EFFECTIVENESS COMMITTEE
MEETINGS HELD FROM AUGUST 2003
TO JULY 2004**

Date	Agenda	Type of Study ^a
4 August	Impact of Rural Roads on Poverty Reduction	IES
10 September	Agriculture Sector Program (VIE) Railway Recovery Program (BAN) Employment Generation Project (MON)	PPAR PPAR PPAR
6 October	Selected Advisory Technical Assistance for Capital Market Development in Pakistan Cost Recovery Policies in the Power Sector Theun-Hinboun Hydropower Project (LAO)	TPAR SES PPAR
7 November	OED's Work Program for 2004 Enhancing the Independence and Effectiveness of OED	
29 January	Review of the Committee's Terms of Reference The Committee's Work Program for 2004	
2 March	Country Assistance Program Evaluation for Cambodia Project Performance Management in ADB and Its Projects in Developing Member Countries	CAPE SES
23 March	Country Assistance Program Evaluation for Papua New Guinea ADB Assistance to Bangladesh Power Sector Selection Process for New Director General, OED	CAPE SAPE
26 May	Reform of Pension and Provident Funds in Selected DMCs Road Improvement Project in Viet Nam	TPAR PPAR
7 July	Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2003 Annual Review of Evaluation Activities in 2003	AR AR

^a AR = Annual Report; CAPE = Country Assistant Program Evaluation; IES = Impact Evaluation Study; PPAR = Project/Program Performance Audit Report; SES = Special Evaluation Study; TPAR = Technical Assistance Performance Audit Report; WGR = Working Group Report