

**MANAGEMENT RESPONSE ON THE ANNUAL REPORT ON  
LOAN AND TECHNICAL ASSISTANCE PORTFOLIO PERFORMANCE  
FOR THE YEAR ENDING 31 DECEMBER 2004**

On 2 August 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

**A. Overall Comments**

1. Management understands that OED has undertaken an extensive consultation process with relevant ADB departments and offices in preparing this annual report. The Report makes a number of significant observations in respect of ADB's portfolio, leading to a conclusion that ADB's traditional lending products and systems no longer meet many of the needs of its key clients. While some of the OED recommendations are quite sensible, taken together they are not sufficient to deal with the portfolio problems diagnosed in the Report. To tackle some of those issues relating to the quality of the portfolio and its relevancy to key clients, ADB has already been making considerable efforts under the initiatives such as the Innovation and Efficiency Initiative (IEI) and the Managing for Development Results (MfDR) initiative. Management will support and guide these efforts as a priority.

**B. Specific Comments on Recommendations**

2. **Timing of Board consideration of loans.** ADB regional departments are making extra efforts to strengthen their risk analysis and apply project readiness filtering mechanisms, so that only fully-prepared projects of standard quality are presented to the Board. Management will guide the regional departments to further strengthen the ongoing efforts largely based on the recommendations of the Report. Such concerted efforts are expected to contribute to the alleviation of the yearend concentration in the submission of loan proposals to the Board.

3. **Loan administration.** Management noted that output indicators had been stagnant in recent years and has emphasized the importance of project administration and encouraged the staff to make much stronger efforts in this area. Under the ongoing MfDR initiative, ADB will strive to improve the impact of its assistance in its DMCs, for which project administration is as important as project preparation. The Project Performance Management System (PPMS) action plan that was established under the MfDR initiative will help strengthen ADB's project administration work.

4. The fact that 20% of loans were not reviewed in 2004 reflects constraints on ADB resources to deliver its overall work program. ADB is addressing this through rationalization of internal resource allocation and greater delegation of administration to resident missions. It plans to further delegate a significant portion of the portfolio to resident missions in next few years in addition to significant progress already made in 2004. A more focused management of its overall portfolio by a dedicated unit is being considered. Strengthening and

sharpening of staff skills through mentoring by more experienced staff is also contemplated. For improving portfolio management, more efficient management of human resources both in headquarters and resident missions will be pursued through the 2006-2008 Work Program and Budget Framework exercise.

5. **Managing TA portfolio.** Management notes that ADB's TA operations have outgrown ADB's ability to effectively manage them. ADB needs to reduce the size of the TA portfolio. Therefore, ADB should be more selective in proposing TAs and this will be considered in the review of TA policy. We also note that a large share of ADB's TA portfolio was not reviewed in 2004, a cause for serious concern. However, the existence of a number of non-active but financially open TAs (due mainly to delayed submission of final statements from consultants) and the increasing practice of combining loan and TA reviews (which are counted only as a loan review mission), may have contributed to the high percentage.

6. **Sector selectivity and focus in the Country Strategy and Program (CSP).** Management concurs that greater selectivity and prioritization should help to improve the quality of the loan portfolio and ADB's development effectiveness. Through the recent directions from Management in the 2006-2008 Planning Directions, Management has urged the staff to exercise stronger focus and selectivity in ADB's operational programs. To this end, a results-based approach is planned for all future CSPs, which should bring greater focus to ADB assistance. The results-based CSPs are gradually moving the emphasis from resource transfer to development impact.

7. **Project monitoring and evaluation.** Management agrees that the existing project performance report (PPR) system needs strengthening to improve the monitoring of projects. The mechanical system of flagging "at-risk" projects does not distinguish between factors that can critically affect a project. Project officers and their Directors also need to be made accountable for the quality of PPR data, which too often understate real problems in project implementation. A review of the rating system would be needed so that ratings in PPR could more accurately reflect the real risk of projects. There is also a need to make the rating system consistent with that of the Project Completion Report (PCR) and Project Performance Audit Report (PPAR).

8. While project level monitoring and evaluation is important, we emphasize, as part of the MfDR agenda, that country level and sector level Monitoring and Evaluation (M&E) is critical to following ADB's performance on development results. In this regard, we suggest that OED consider designing the criteria and systems for evaluating results-based CSPs to monitor their quality.

9. The Report raises the issue of delayed **program loan tranche releases** that reached a high in 2004 (paras. 105-112). The Report provides three reasons for the delay in releases: (i) lack of DMC ownership and commitment; (ii) an overly complex and ambitious reform agenda; and (iii) underestimation of time needed for reform agenda implementation. Unfortunately, the Report makes no recommendations regarding measures that could be taken to rectify the situation. The World Bank has recently dispensed with tranching of its policy-based loans.

10. Lastly, we agree that there is a need for more flexibility in ADB's policies and procedures in response to concerns raised by Middle-Income Countries (MICs)/Ordinary Capital Resources (OCR) borrowing countries. ADB is currently addressing this under the ongoing Innovation and Efficiency Initiative (IEI). It is suggested that OED study this matter and make more concrete recommendations in its future reports.