

**MANAGEMENT RESPONSE ON THE ANNUAL REPORT ON LOAN AND
TECHNICAL ASSISTANCE PORTFOLIO PERFORMANCE
FOR THE YEAR ENDING 31 DECEMBER 2005**

On 25 August 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

A. General Comments

1. The 2005 Annual Report on Loan and Technical Assistance (TA) Portfolio Performance (the Report) provides a comprehensive picture of ADB's operations, and serves as a useful guide for further improvements in portfolio management. We generally support OED's recommendations, and have made substantial progress already on a number of them, as outlined below. We do note that the Executive Summary, in both substance and tone, is more critical of ADB's performance than the body of the Report where the underlying analysis shows many positive features in 2005. It also underplays many of our recent achievements, including streamlining of processes, introduction of new products, and other elements of the Reform Agenda and Innovation and Efficiency Initiative already well underway.

B. Specific Comments

2. **Demand for ADB Assistance.** Although *public sector lending* in 2005 is close to the historical average, data do not support the assertion that ADB *assistance* is stagnating. Combined public and private sector lending in 2005 exceeds levels over the past decade, with the exception of the outlier year associated with the Asian financial crisis. We managed to deliver an average loan volume over \$5 billion in the midst of two regional disasters (the tsunami and the South Asian earthquake) that required unplanned allocation of staff resources from two departments to prepare multiple emergency projects valued at hundreds of million dollars. The large grant element of these projects does not feature in OED's analysis. ADB also prepared its first two Multitranche Financing Facilities (MFFs) in 2005—an effort that required substantial staff resources up front, but with loan volumes spread out over a decade.

3. **Disbursements.** The Report's general message is that disbursements have been slow in recent years, while acknowledging that 2005 disbursements were the highest since 1999. We expect to build on this success in part due to an increase in our private sector operations, and renewed interest in ADB program support from Indonesia and the Philippines.

4. **Reconciling lending growth with increased attention to project administration.** A central assertion of the Report is that "it is impossible to reconcile the projected growth in loan approvals with the promise of increasing attention to project administration." While we acknowledge that scaling up assistance levels will put pressure on all ADB's resources, we also believe that greater attention to project processing has knock-on effects on project implementation, by ensuring higher quality at entry. This is a central tenet of the

Action Plan on Loan and TA Portfolio Performance. As discussed below, ADB is also shifting more staff resources to operations. Although the overall number of mission per loan project declined marginally in 2005, we agree with OED's assessment that this is mainly attributable to the demands of emergency assistance projects, and a function of increasing delegation to RMs.

5. **Delegation to resident mission (RMs).** In 2005, there was a significant increase (by 24 projects) in the delegation of authority to RMs as a key measure to strengthen the project administration and supervision (para. 139). The percentage of delegated loans increased to 33.8% from 30.6% in 2004. We anticipate some strengthening of staff resources in RMs in the upcoming WPBF, including the addition of new national officer positions (see para. 11).

6. **Start-up delays and project extensions.** We agree that start-up delays and project extensions remain a problem. The causes of the former are diverse but well known. Our approach will be to focus on readiness filters and quality at entry—a working group on quality at entry currently is reviewing 30 recently approved loans according to a detailed set of criteria used also by the World Bank. Project extensions are also linked to unanticipated problems during implementation, and here we expect that our greater focus on administration of the portfolio will lead to improvements. In this context we also appreciate the special study on the use of critical path methods and program evaluation and review techniques, and agree that projects require more detailed and analytically sound project implementation schedules as a priority. It is not clear, however, whether a specific package of software is required, or a focused training program. We also agree that the Project Performance Reporting system needs review, but also that operational Directors need take responsibility for ensuring the accuracy of information put into the system so that we may flag implementation problems sooner.

7. **Strategic application of TA resources.** The reduction in the total number of new TAs provides an incentive to use these funds more strategically, but efforts to scale up lending also requires more PPTAs. If the RETA program continues at current levels, TA ceilings mainly will affect ADTAs. We must balance the need for more careful use of TA resources and better allocation of operational staff resources, with client demand for knowledge products. Although the total number of financially open TAs is not a perfect indicator of the administrative burden of the TA program (because many are inactive), Management has committed to cleaning up the TA portfolio. In 2005 operational departments closed 413 TAs—considerably more than in previous years—and realized substantial savings. The total number of open TAs fell from 977 at the end of 2005 to 920 at Q2 2006. Further progress will require continued diligence. ADB has been reporting to Management on a quarterly basis since early 2005 on TAs active 90 days after their actual/expected completion date, and in Operations Group (OG) 2 the total allocation of TAs between departments is linked to their performance on closing inactive TAs and releasing TA savings.

8. **TA administration.** We acknowledge OED's observation that the intensity of TA supervision, as measured by the number of review missions, shows little improvement compared to 2004, and recognize the need to do better. The 2005 statistics may be attributed in part to extraordinary demands on operational staff resulting from the two regional disasters. TA deliverables can be

monitored without missions as communication are facilitated through video conferencing, fax, e-mail, and phone calls. Statistics on review missions do not capture TAs processed by, or delegated to, RMs. For PPTAs, our main concern is to ensure full involvement of EAs and their buy-in of TA recommendations and project design, and the draft final reports are always discussed during the fact-finding missions for the ensuing loans.

9. **Bunching.** The executive summary mentions that “the problem of year-end bunching persisted.” However, significant improvement was achieved in overall bunching levels from 65% in 2004 to 51% in 2005, while the OED’s 2005 figure (58%) refers to public sector projects only.

10. **Risk management.** The Report maintains that “PSOD is probably incapable of achieving WPBF targets (\$800 million - \$1.1 billion) without engendering unacceptable levels of risk’. The basis for this statement is unclear. ADB is strengthening its credit risk management systems with the establishment of an independent Risk Management Unit (RMU), which is currently formulating a comprehensive business plan to improve ADB’s risk management to be implemented from 2007, and reviewing the structure and responsibilities of committees that review risk and pricing.

11. **Staff and budget allocations vs. WPBF outputs.** The Report attributes portfolio performance problems to staff resource constraints, and notes a need for more staff in the Private Sector Operations Department (PSOD) and RMU. BPMSD has taken a number of steps to allocate staff where they are most needed, including:

- Sequestration of 30 professional staff positions ADB-wide and the redistribution of nearly 20 of these positions to operations departments including PSOD.
- In addition to new staff, PSOD also has a new Director position to improve the preparation and oversight of infrastructure investments.
- BPMSD allocated 11 national officer (NO) positions and 12 administrative staff (AS) positions to operational departments during the 2006 budget cycle, and 10 NO and 11 AS positions to RMs.

Furthermore, the realignment of regional departments will help balance workload and improve country focus; both should contribute to better portfolio outcomes.

12. **Career incentives and development for project administration staff.** We agree that there should be career development opportunities for staff who are successful at project administration. As we explained in our response to OED’s Annual Evaluation Review, the new PDP system provides the incentive system to link career development and portfolio performance through the inclusion of portfolio management outcomes in the workplan and performance indicators of staff. In addressing this issue, we should, however, be careful not to create separate career paths for project administration and project processing. It is important that staff be involved as much as possible in both. Experience in project administration is important for designing and processing good projects, and mission leaders should be responsible for implementing their own projects, at least during the start-up phase. This practice makes mission leaders more accountable for their work, and increase ADB’s ownership of its portfolio.

C. Conclusions

13. While the Report provides a comprehensive review of ADB's portfolio performance, there is a need for a more balanced view on our progress on portfolio performance. We welcome the central recommendation to focus on improvements through the "Action Plan to Improve Loan and TA Portfolio Performance" prepared by Management in 2005. We are providing a progress report on the Action Plan, in parallel with this note, which shows many of the key measures are either being adopted or already completed.