



ASIAN DEVELOPMENT FUND (ADF)  
**ADF IX MIDTERM REVIEW MEETING**  
4–5 December 2006      Frankfurt, Germany

**Annual Poverty Reduction Reports:  
An Innovation in Institutional Level  
Monitoring of ADB's Efforts to  
Reduce Poverty**

Asian Development Bank

November 2006

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADB I	–	Asian Development Bank Institute
ADF	–	Asian Development Fund
BPMSD	–	Budget, Personnel and Management Systems Department
CAPE	–	country assistance program evaluation
CPA	–	country performance assessment
CSP	–	country strategy and program
DMC	–	developing member country
GDP	–	gross domestic product
GNI	–	gross national income
HIPC	–	highly indebted poor country
IDA	–	International Development Association
IEI	–	Innovation and efficiency initiative
KPS	–	knowledge products and services
MAKE	–	most admired knowledge enterprise
MDB	–	multilateral development bank
MDG	–	Millennium Development Goal
MfDR	–	Managing for Development Results
MTS II	–	Second Medium-Term Strategy (of ADB)
NGO	–	nongovernment organization
OCR	–	ordinary capital resources
OED	–	Operations Evaluation Department
PBA	–	program based approaches
PCR	–	project completion report
PDP	–	performance development plan
PPER	–	project performance evaluation report
PRS	–	Poverty Reduction Strategy
RSDD	–	Regional and Sustainable Development Department
TA	–	technical assistance
TCR	–	technical assistance completion report
TPER	–	technical assistance performance evaluation report
UN	–	United Nations
UNDP	–	United Nations Development Programme
UNESCAP	–	United Nations Economic and Social Commission for Asia and the Pacific

## NOTE

In this report “\$” refers to US dollars.

## CONTENTS

	<b>Page</b>
EXECUTIVE SUMMARY	
I. INTRODUCTION	1
A. Background of and Rationale for the Annual Poverty Reduction Reports	1
B. The Monitoring Framework of the Annual Poverty Reduction Reports	1
C. Harmonization with Monitoring Systems of other Multilateral Institutions	3
D. Progress, Outcomes, and Expectations	3
II. HIGHLIGHTS OF THE 2005 ANNUAL POVERTY REDUCTION REPORT	4
A. Intended Impact of the Poverty Reduction Strategy: Poverty Reduction in the Asia and Pacific Region	5
B. Intended Outcome of the Poverty Reduction Strategy: Demonstrable Improvements in Development Effectiveness of ADB Operations	7
C. Outputs of the Poverty Reduction Strategy and Related Activities: Improved Operational Quality, Finance, Knowledge and Partnerships	9
D. Inputs to the Poverty Reduction Strategy: Human and Budgetary Resources	13
III. CONCLUSIONS	14

## EXECUTIVE SUMMARY

This information paper prepared for the Asian Development Fund (ADF) IX Midterm Review sets out the main features of the system to monitor Asian Development Bank's (ADB) institution-level progress in implementing its Poverty Reduction Strategy (PRS). It also presents some highlights from the 2005 annual poverty reduction report.

The 2004 review of the PRS introduced a results-based monitoring and evaluation (M&E) system replacing the system of monitoring the 40% lending target for projects classified as poverty interventions set in the original PRS. Annual poverty reduction reports were institutionalized in 2005 with the preparation of the 2004 report, and are now a key element of the M&E system. The reports have adopted a results framework that assesses impacts, outcomes, outputs and activities and inputs.

The 2004 annual poverty reduction report had considerable data gaps. The 2005 report, which is now being finalized, has more complete information on the indicators. Efforts have also been made to harmonize the performance monitoring system in the annual poverty reduction reports with those of other multilateral development banks (MDBs). Starting with the 2005 report, the indicator set is similar to that used by the International Development Association (IDA). The overall finding of the 2005 report is a general improvement in institutional performance, although findings vary at different levels of the results chain.

At the impact level, assessment is based on progress on the millennium development goals (MDGs). Progress on the MDGs is mixed. Income poverty has continued to reduce in the region while there is still insufficient progress on the non-income MDGs. In the 2005 report, benchmarking has been done for other impact indicators relating to growth, basic infrastructure and private sector development.

At the outcome level, results are mixed. While assessment of completed loan and technical assistance (TA) projects had mixed results, staff assessments of governance and public sector management capacity in DMCs indicate improvements. Country assistance program evaluations (CAPEs) carried out in 2005 indicate satisfactory outcomes for one developing member country (DMC), and mixed outcomes for two. A perception survey conducted recently suggests that ADB is seen as an effective development partner especially recognized for excellence in infrastructure and regional cooperation and economic integration. While many see ADB as doing an excellent or good job in reducing poverty, many also feel that ADB should place an even higher priority on poverty reduction.

In 2005, ADB's major outputs and activities increased significantly, particularly in lending, disbursements, and cofinancing. Ratings of the portfolio under implementation improved. ADB also was seen to be developing more effective partnerships with NGOs and other development partners.

Deployment of inputs improved. Administrative expenses towards project processing and disbursements decreased in 2005 and human resource indicators showed some improvements.

With the completion of the 2005 annual poverty reduction report, the process of developing an institution level monitoring system on progress in implementing the poverty reduction strategy has been considerably furthered. With data on most indicators now available, it is expected that a more complete assessment will be possible with the next report.

## I. INTRODUCTION

### A. Background of and Rationale for the Annual Poverty Reduction Reports

1. This information paper prepared for the Asian Development Fund (ADF) IX Midterm Review sets out the main features of the system for monitoring the Asian Development Bank's (ADB) institutional level progress in implementing its Poverty Reduction Strategy (PRS). The system has been introduced following the review of the PRS in 2004. It also presents some highlights from the 2005 annual poverty reduction report.

2. The 2004 review of the PRS adopted by ADB in 1999 introduced changes to improve its implementation. While confirming the relevance of the basic framework of the PRS and its three pillars—pro-poor, sustainable economic growth; inclusive social development; and good governance—the review noted the need for closer alignment of ADB's operations with each country's poverty reduction strategy and for fostering partnerships. The review called for increased attention to results, greater emphasis on capacity development, and alignment of ADB's organizational capabilities with the PRS. It introduced a results-based monitoring and evaluation system (through the annual poverty reduction reports) replacing the system of monitoring the 40% lending target for projects classified as poverty interventions set in the original PRS.<sup>1</sup>

3. The annual poverty reduction reports were institutionalized in 2005, with the preparation of the 2004 report. The reports broadly follow the monitoring framework set out in the PRS Review R-Paper<sup>2</sup> that was discussed with the Board and approved in July 2004. The reports have adopted a results framework that assesses inputs, activities, outputs, outcomes, and impacts. ADB's impact on reducing poverty is monitored through overall progress made by its developing member countries (DMCs) on the Millennium Development Goals (MDGs). The 2005 report, now being finalized, has introduced indicators relating to growth and factors that contribute to growth as additional impact indicators. These provide the overall context in which ADB operates. However, any assessment of how ADB reduces poverty requires gauging its overall effectiveness as an institution. This would also require assessing the outcomes of its operations, the quality and scale of its outputs and activities, and the efficiency with which it utilizes its inputs. These elements constitute the results framework of the annual poverty reduction reports.

### B. The Monitoring Framework of the Annual Poverty Reduction Reports

4. The basic elements of the monitoring framework of the annual poverty reduction reports are explained in Box 1. A number of key indicators have been identified at each level of the results chain.

---

<sup>1</sup> These are projects where the proportion of the poor within the targeted beneficiaries exceeds the national poverty incidence and is no less than 20%.

<sup>2</sup> ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila. (R95-04).

### **Box 1. Measuring the Asian Development Bank's Performance: Corporate Results Framework**

The indicators used to assess performance are grouped into 14 sets.

#### **Impact: poverty reduced in Asia and the Pacific (the ultimate goal of the Poverty Reduction Strategy [PRS])**

Indicator: Level of achievement of Millennium Development Goals (MDGs) 1–7; indicators relating to growth, basic infrastructure and private sector development.

Achieving the MDGs cannot be attributed solely to the Asian Development Bank's (ADB's) efforts. Many other conditions need to be met, such as global and regional economic and political stability, continued commitment of developing member countries (DMCs), and support from other development partners. ADB and its partners should monitor progress on the MDGs as they provide the development context within which ADB plans, implements, and evaluates its operations and forms partnerships. In addition to the MDGs, indicators relating to economic growth and the environment for growth have also been introduced given the important role that growth plays in poverty reduction.

#### **Outcome: demonstrable improvements in development effectiveness of ADB operations (intermediate outcome of the PRS)**

Key questions (and indicators):

- Do country strategies and programs<sup>1</sup> (CSPs) achieve their objectives? (annual post-evaluation ratings of results-based CSPs)
- Do projects achieve their objectives? (annual project completion and post-evaluation ratings of loan projects and knowledge products and services (KPS))
- Are DMCs building their capacities to reduce poverty? (country performance assessment ratings on DMC capacity)
- Do our DMC clients consider ADB operations effective? (client survey results on ADB's development effectiveness)

#### **Outputs: improved quality of design and implementation of ADB operations enhanced ADB capacity to mobilize finance and knowledge for poverty reduction more effective partnerships to reduce poverty**

Key questions (and indicators):

- Is the quality of CSP design improving? (quality-at-entry ratings of CSPs)
- Is the quality of project design improving? (quality-at-entry rating of loan projects and KPS)
- Is the quality of project implementation improving? (portfolio performance ratings)
- Is ADB strengthening its role in mobilizing development finance? (amount of loans, cofinancing mobilized)
- Is ADB contributing to knowledge sharing for poverty reduction? (number of poverty-related articles from ADB in referred journals, annual staff survey of knowledge management activity etc.)
- Is ADB's knowledge valued? (number of hits on ADB website)
- Is ADB working more closely with other development partners? (number of program-based approaches supported, proportion of joint CSP and portfolio review missions, proportion of projects with nongovernmental organization involvement)

Unlike impact and outcome, delivery of outputs is almost fully under ADB's control and demonstrates how effectively and efficiently ADB performs.

#### **Inputs: human and financial resources**

Key questions (and indicators):

- How efficiently is ADB aligning its staff resources (level and mix) and motivating them to deliver its outputs? (proportion of operational to non-operational staff, proportion of staff in resident missions, hiring time, proportion of operational staff with desired operational experience, staff engagement index, etc.)
- How is ADB aligning its budget with priority activities? (administrative expenses needed for \$1 million of loan approvals and disbursements)

To deliver its outputs, ADB needs to allocate adequate resources (staff and budget) and ensure their efficient use. ADB must systematically link inputs to outputs through activities. The work program and budget framework are the main vehicles to link activity planning and input allocation.

<sup>1</sup> The recent revision to the business processes on country strategies and programs included a change in the title of the document to "country partnership strategies." However, this report will maintain the old nomenclature to avoid confusion when referring back to the Donors' Report.

### C. Harmonization with Monitoring Systems of other Multilateral Institutions

5. The performance monitoring system in the annual poverty reduction reports is broadly consistent with the monitoring frameworks of other multilateral development banks (MDBs). Starting with the 2005 report, the indicator set is similar to that used by the International Development Association (IDA) and covers results for all of ADB's DMCs including ADF countries (see Box 2). This has been accomplished by increasing indicators beyond the MDGs to include economic growth and factors responsible for it, which also play an important role in reducing poverty.

6. Monitoring results in all ADB DMCs, ADF as well as non-ADF recipients, provides a more complete picture of progress and enables useful comparisons rather than monitoring concessional aid alone.

#### Box 2: Harmonizing Performance Monitoring

The multilateral development banks all have performance monitoring systems; however, their coverage varies and makes comparisons difficult. It has been suggested that the MDBs adopt similar systems. The monitoring system used by the World Bank's International Development Association (IDA) 14 fund is considered the most comprehensive; the African Development Bank has adopted it for the African Development Fund.

IDA 14 uses a 2-tier performance assessment system with corresponding indicator sets. Tier I consists of 14 country outcome indicators to measure "big picture" progress. These consist of 7 Millennium Development Goal (MDG) indicators (population below \$1 a day, access to water, under 5 mortality, prevalence of HIV, births attended by skilled health staff, primary school completion rate, ratio of boys to girls in primary and secondary education); and 7 indicators on economic growth and the climate for growth (gross domestic product per capita, public financial management in terms of highly indebted poor country (HIPC) benchmarks met, cost of business start up, time taken for business start up, phone subscribers, access to all-season roads, household electrification rate). ADB's annual poverty reduction reports now include all these indicators except the one on HIPC as it is not relevant for this region. The new non-MDG indicators at the impact level are similar to those under the IDA-14 Tier-I indicators and have been developed in consultation with the World Bank who also provided the data set for them.

Tier-2 indicators relate to intermediate outcomes and outputs in the actual performance of IDA programs. There are six indicators in this tier, five relating to countries and projects (number of results-based country assistance strategies prepared, percent of projects with satisfactory quality-at-entry ratings, percent of projects with satisfactory outcome ratings, percent of projects with satisfactory implementation ratings, percent of projects with satisfactory completion ratings) and one monitoring aggregate project outputs in the health, education, water, and transport sectors. All except the last are included in ADB's poverty reduction reports. ADB is considering whether aggregate project output indicators can be included in the biennial sector monitoring reports that have recently been introduced.

### D. Progress, Outcomes, and Expectations

7. The first poverty reduction report (for 2004) was considered by Management in November 2005 and submitted to the Board for information.<sup>3</sup> It essentially explained its nature and purpose and the rationale for the results framework and the indicator set. Much of the data were not available, but it helped to provide a picture of the direction ADB was taking in establishing an institutional monitoring system. This report was also discussed by the Board's Development Effectiveness Committee in March 2006 which considered the report useful.

<sup>3</sup> ADB. 2005. *Annual Report on the Implementation of the Poverty Reduction Strategy, 2004: An Assessment of the Asian Development Bank's Progress and Changes Introduced to Fight Poverty*. (IN. 336-05). The Report can also be viewed in [www.adb.org/poverty/monitoring.asp](http://www.adb.org/poverty/monitoring.asp)

8. The second poverty reduction report (for 2005) is being finalized and will soon be submitted for consideration by Management and then circulated to the Board for information. Highlights of this report are presented in the next section.

9. Systematic reporting of results is an important component of managing for development results at ADB. Monitoring using results frameworks has been established at all relevant levels—project (through improved design and monitoring frameworks); country (through results-based country strategies and programs [CSPs]); sector and theme (through the biennial monitoring reports<sup>4</sup>); and at the institution level through the annual poverty reduction reports which provide a comprehensive, coordinated approach to institution level monitoring.

10. The main purpose of these reports is to highlight areas where Management's attention is especially needed. A challenge they face—as with any monitoring and reporting system—is to make sure they are timely and that the findings are fed into decision making. The annual poverty reduction reports can best be utilized in the annual business planning cycle where the work program and budget framework, the annual budget document, and departmental work programs are decided. The reports would serve their purpose if they regularly inform decision makers about ADB's performance so that timely actions can be taken.

## II. HIGHLIGHTS OF THE 2005 ANNUAL POVERTY REDUCTION REPORT<sup>5</sup>

### ***Overall Conclusions***

11. The overall finding for ADB's 2005 performance indicates a general improvement in institutional performance. The assessment covered 10 of the 14 indicator sets, of which 7 demonstrated improvement and 3 mixed results (Table 1).<sup>6</sup> However, this overall assessment is based on a partial set of indicators and a firmer assessment can only be made in the next report.

---

<sup>4</sup> Biennial sector and thematic monitoring reports were also introduced from 2005 following the recommendations of the PRS Review. Six sector reports were prepared in 2005 and reports on six thematic areas are being prepared in 2006.

<sup>5</sup> *2005 Annual Poverty Reduction Report: Progress in Implementing the Poverty Reduction Strategy* (Draft).

<sup>6</sup> Assessments were made based on indicators where data was available in 2005. Assessment categories and criteria for assessing each indicator set are as follows: (i) improvement—if all or the majority of indicators assessed have shown improvement; (ii) mixed results—if one indicator shows improvement and the other regression (out of a set of two indicators); (iii) no change—if the indicator(s) have neither progressed nor regressed; (iv) regression—if the majority or all of the indicators have regressed. No assessments were made for indicator sets where majority of the indicators were either benchmarked in 2005 or where data were not available.

**Table 1: Indicators of Poverty Reduction Strategy Implementation and Overall Assessments**

Indicators	Overall Assessments
<b>Impact: Poverty Reduction in Asia and the Pacific</b>	
Millennium Development Goals (1a)	Mixed results
Other impact indicators (1b)	—
<b>Outcomes: Demonstrable Improvements in the Development Effectiveness of Operations</b>	
Country operations (2)	—
Loan projects (3)	Mixed results
Knowledge products (4)	Mixed results
Developing member country capacity (5)	Improvement
Partnership perceptions (6)	—
<b>Outputs/Activities: Improved Operational Quality, Finance, Knowledge and Partnerships</b>	
Quality of country strategies and programs (7)	Improvement
Quality of projects (8)	Improvement
Loan approvals and disbursements (9)	Improvement
Cofinancing (10)	Improvement
Capacity for mobilizing knowledge (11)	—
Partnerships (12)	Improvement
<b>Inputs: Human and Budgetary Resources</b>	
Efficient use of human resources (13)	—
Efficient use of budgets (14)	Improvement
<b>Overall Assessment :</b>	Improvement

Note: — means not assessed owing to either data on indicators not available or indicators benchmarked in 2005 report so progress can be assessed only in future reports. Numbers in parenthesis refer to indicator set numbers.

#### **A. Intended Impact of the Poverty Reduction Strategy: Poverty Reduction in the Asia and Pacific Region [Indicator set 1]**

12. The Asia and Pacific region has continued to make progress in reducing income poverty. An ADB study<sup>7</sup> in 2005 estimated that the number of people subsisting on less than \$1 a day was about 621 million in 2003 (653 million in 2002). The regional incidence of poverty is estimated to have dropped to 19.3% in 2003 (20.4% in 2002). This uninterrupted progress in reducing income poverty in the region has been driven by economic growth in most countries. The study indicates that the region as a whole will meet the goal of reducing the proportion of people living on less than \$1 a day by half by 2015 compared with 1990. The number of countries that may not reach this goal is lower than projected last year (five—including two ADF countries—compared with eight in 2004)<sup>8</sup>.

13. On the non-income poverty front, however, the picture remains substantially unchanged for ADB DMCs based on data made available in a recent joint study by ADB, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and United Nations Development Programme (UNDP).<sup>9</sup> Although the MDG dataset has been updated to reflect the latest situation and about 5% more information on the indicators is available than in the last

<sup>7</sup> ADB. 2005. *Poverty in Asia: Estimates and Projections*. Manila. A supplement to the report has revised the 2002 projection for poverty in the region down, making progress on income poverty less dramatic. However, given obvious margins of error on projections, annual comparisons should be treated with caution.

<sup>8</sup> These projections are based on the conservative estimates (low growth, high inequality).

<sup>9</sup> ADB-UNDP-UNESCAP.2006. *The Millennium Development Goals: Progress in Asia and the Pacific 2006*. Bangkok.

report, a roughly similar picture has emerged compared to data presented in the 2004 annual poverty report. Of the 42 DMCs studied, 27 are unlikely to achieve 25% and above of the targets of the non-income MDG indicators (as against 27 out of 41 DMCs in the 2004 report). This group of 27 countries includes 19 of the 27 ADF-recipient countries.

14. The main concerns are the indicators for health, access to water and sanitation, and CO<sub>2</sub> emissions and forest cover. More than 40% of ADB's DMCs are unlikely to achieve the targets in these areas.

15. Given the significant impact growth has on poverty reduction, it has also been tracked. In addition to the MDG indicators, progress on economic growth, basic infrastructure, and private sector development provides a more complete picture of progress in the region. Six indicators have therefore been added to measure impact: per capita GDP; access of the rural population to an all-season road; household electrification rate; fixed line and mobile phones per 1000 inhabitants; the cost required for business start-up; and the time required for business start-up.<sup>10</sup>

16. Average annual GDP per capita growth for ADB's DMCs between 1999 and 2004 was 6.1% (although for ADF-recipient countries it was only 3.2%). However, continuing such growth will require continued investments in infrastructure in which the private sector will have to play an important part. According to the latest available data, much of the region's population still has no access to essential infrastructure: 36% of households had no electricity connections<sup>11</sup>; 23% of the rural population had no access to an all-season road (31.4% for ADF-recipient countries); 73% of the population had no telephone connections (90% for ADF-recipient countries). Access to water supply and sanitation is another infrastructure area where much needs to be done. In most countries, business start-ups still take a very long time and are costly: the average time for a business start-up was 48 days (52 days for ADF-recipient countries) and the cost was 38% of the average gross national income (GNI) per capita (45% in ADF-recipient countries). Performance on these indicators indicates that ADF-recipient countries are lagging behind the rest of the region.

17. It should be noted that there are considerable gaps and deficiencies in the data. The lack of high-quality data has hampered proper assessments of country outcomes and indicates the lack of priority given to information gathering. This is the result both of insufficient monitoring and evaluation in national poverty reduction efforts (leading to insufficient demand for data) and of lack of capacity in statistical agencies. A recent ADB initiative is designed<sup>12</sup> to carry out systematic and long-term statistical capacity-building in Asia and the Pacific, with a focus on weakly performing countries and small Pacific island countries.

18. Long-term progress in poverty reduction in Asia and the Pacific region will depend to a large extent on how the challenges in the non-income MDGs and infrastructure sectors are addressed. ADB can make a substantial contribution given its emphasis on strengthening inclusiveness under ADB's second medium term strategy (MTS II). Clearly, however, a significant scaling up of its operations will be necessary if ADB is to contribute meaningfully to poverty reduction and efforts to achieve the MDGs. As ADB's resources are limited, however, it needs also to work more effectively with its development partners to achieve this.

<sup>10</sup> These indicators are a subset of the IDA-14 tier-I indicator set. Source: World Development Indicators Database; UN Population Prospects Database; ADB.2006.Key Indicators. Manila.

<sup>11</sup> It is difficult to ascertain the percentage of households without access to electricity for ADF recipients owing to lack of data. With efforts to improve data, it may be possible to report on this in the future.

<sup>12</sup> ADB. 2006. *Technical Assistance for Statistical Capacity Building in the Asia and Pacific Region*. Manila (August; R170-06).

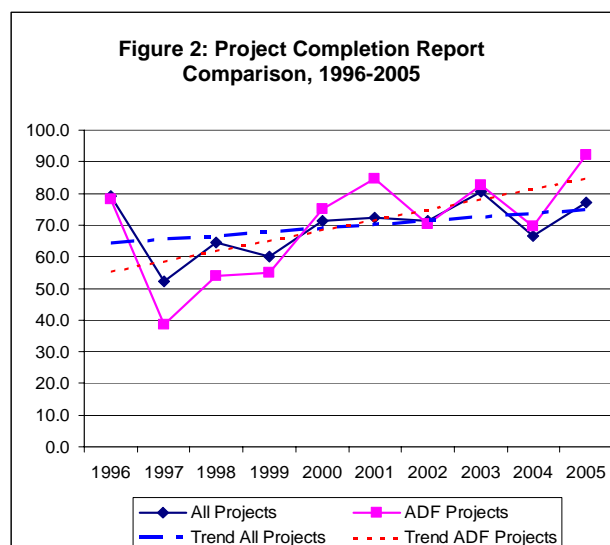
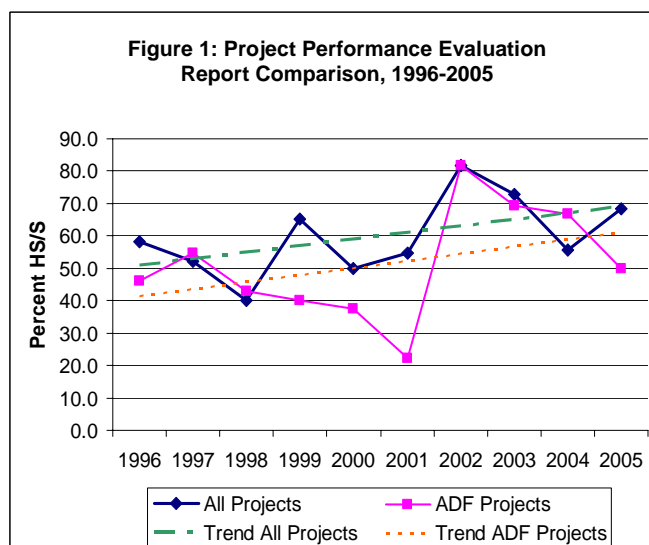
## B. Intended Outcome of the Poverty Reduction Strategy: Demonstrable Improvements in Development Effectiveness of ADB Operations

### 1. Achievement of CSP/RCSP Operational Outcomes [Indicator set 2]

19. ADB embarked on results-based CSPs following the PRS review in 2004. The first results-based CSP was for Nepal in 2004, followed by five (5) results-based CSPs prepared in 2005. Assessment of operational outcomes of these results-based CSPs will have to await their completion. Some country level outcomes based on older CSPs are, however, available from the country assistance program evaluation (CAPE) reports by the Operations Evaluation Department (OED). In 2005, CAPEs were prepared for Bhutan, Indonesia and Uzbekistan, which were all ADF recipients during the periods covered. The Bhutan CAPE refrained from making any overall assessment, pointing instead to strengths (such as good portfolio performance and relative success in finance, energy, transport and social infrastructure sectors) and shortcomings (such as lower success rates in agriculture and industry sectors). The Indonesia CAPE judged the ADB strategy and program as partly successful due to some extent to the financial crisis which reversed the gains achieved earlier and weakened portfolio performance. The Uzbekistan CAPE assessed only the strategies and programs (because no projects had been post-evaluated) and found them satisfactory.<sup>13</sup>

### 2. Achievement of Outcomes of Loan Projects [Indicator set 3]

20. Of 19 project performance evaluation reports (PPERs)<sup>14</sup> prepared in 2005, 68.4% assessed projects to be highly successful or successful, exceeding the 2004 average of 55.6%. However, the average for 2003–2005 was 65.6%, which is lower than the 2002–2004 average of 70%. ADF projects have generally not performed as well as others (Figure 1) reflecting weaker project implementation capacities in ADF countries. However, over the 1996–2005 period, there has been an improvement, as shown by the trends for all projects and ADF projects.



Source of basic data: Post Evaluation Information System and Private Sector Operations Department

<sup>13</sup> Recent revision to the business process introduced a mid-term review of CSPs and CSP Completion Reports. In the future, these will provide data for the indicator set, in addition to CAPE.

<sup>14</sup> PPERs are prepared by the Operations Evaluation Department (OED) on a selective basis.

21. Significant improvement was noted in the 61 project completion reports (PCRs)<sup>15</sup> in 2005, with 77% of projects rated highly successful or successful, compared with 67% in 2004. This brought the average for the 2003–2005 period to 74.8%, compared with 72.8% for 2002–2004. Trends for all projects and for ADF projects in the 1996–2005 period are also improving (Figure 2)<sup>16</sup>.

### **3. Outcomes from Knowledge Products and Services [Indicator set 4]**

22. In 2005, a technical assistance performance evaluation report (TPER) was prepared by OED, covering a cluster of four TA projects, all approved in 1999 to support capacity building for decentralization in Indonesia. Two of the TA projects were rated successful, one was rated partly successful, and one was rated unsuccessful. The average rating for 2003–2005 (46.9% rated as successful or highly successful) therefore fell below the benchmark (of 54.4% adopted in the 2004 report), although it was based on a small number of TPERs. The partly successful and unsuccessful ratings of the two TA projects evaluated in 2005 were attributed to design weaknesses, including overambitious scope; significant institutional and staff changes within the decentralized agencies; inadequate aid coordination; and limited staff resources to implement the projects.

23. In 2005, 168 technical assistance completion reports (TCRs) were prepared by departments concerned, 88% of which assessed projects highly successful or successful. The success rate was the highest noted over the 2000–2005 period. However, the quality of TCRs in general needs to be improved.

### **4. Improvements in DMCs' Capacities for Poverty Reduction [Indicator set 5]**

24. ADB staff assessments of governance and public sector management in ADF countries are conducted as part of the country performance assessments for the performance-based allocation of ADF. They provide good indicators of an important aspect of capacity development in ADB's weaker DMCs. An improving trend in CPA ratings is seen since 2001, based on average country scores.

### **5. Improvements in ADB's Development Effectiveness Perceived by DMCs and Other Partners [Indicator set 6]**

25. A multinational perception survey of opinion leaders and stakeholders, including donors, on ADB's overall development effectiveness was conducted in 2006. It contained important questions on perceptions of ADB's performance, including its impact on the development process, performance in helping the DMCs reduce poverty, and priority on poverty reduction.

26. Across ADB member countries, opinion leaders generally believe that ADB has had a positive impact on the way things are going in the countries ADB serves. They also felt that ADB strives to meet country development goals and objectives. ADB *clients*—opinion leaders with some involvement in an ADB program, project or research study in the past three years—are particularly positive about ADB's impact and helpfulness.

<sup>15</sup> PCRs are prepared by the operational departments concerned for all completed projects.

<sup>16</sup> OED undertook an analysis of project success based on the year of project approval, (not based on the year of circulation of PPER or PCR as presented in this report), and with combined results of PPERs and PCRs. The outcome of the analysis showed that for projects approved in the 1990s, ratings of both OCR-funded and ADF-funded projects improved and converged. See "Report on the Independence of the Evaluation Function and Evaluation Results for ADF Operations" prepared for ADF IX Midterm Review.

27. On the question of how ADB helps DMCs reduce poverty, close to half (ranging from 42% to 48%)<sup>17</sup> of the opinion leaders felt that ADB was doing an excellent or good job. ADB clients were somewhat more likely to give a high rating than non-clients. The opinion leaders who work in government tend to rate ADB's performance in poverty reduction higher than the private sector, academia, and civil society organizations. Opinion leaders rated ADB's performance in two operational areas as excellent or good: infrastructure development, and promoting regional cooperation and integration. Many opinion leaders (between 27% and 57%) believe that ADB is currently placing a high priority on reducing poverty; but at the same time, about twice the number of opinion leaders believe that ADB should place an even higher priority on poverty reduction.

28. These findings serve to create a benchmark for future evaluation of ADB's perceived performance in helping the DMCs reduce poverty. ADB will monitor the progress by conducting regular perception surveys every three years.

### **C. Outputs of the Poverty Reduction Strategy and Related Activities: Improved Operational Quality, Finance, Knowledge and Partnerships**

#### **1. Improved Quality of CSPs [Indicator set 7]**

29. **Number of Results-Based CSPs.** In 2005, all five CSPs prepared, including 4 for ADF recipient countries, were results-based (there were no RCSPs in 2005). This compares with 2004, when only one out of two CSPs and RCSPs was results-based. A recent stock-taking exercise<sup>18</sup> of the results-based CSPs so far confirmed the need for and the validity of the results-based approach. In particular, it found the approach helped strengthen alignment with national development goals, foster government ownership, contribute to the country's monitoring and evaluation system, and help strategy drive programming. It also stressed the need to improve the quality of thematic and sector assessments; to develop outcomes, outputs and indicators early and systematically; to strengthen internal ADB processes; to build capacity in DMCs; and to increase collaboration with other development partners.

30. **Quality-at-entry of CSPs.** Following the recommendations of the PRS review, the first biennial assessment of the quality at entry of CSPs was carried out by a staff panel in 2006. Six CSPs prepared in 2004 and 2005 (of which 5 were for ADF recipient countries) were assessed. Detailed criteria were adopted under each of the main areas of (i) country diagnostics; (ii) identification of lessons; (iii) country strategy; (iv) country program; (v) performance indicators/results framework; (vi) risk assessment and mitigation measures; and (vi) preparation process. An overall assessment indicated that only 2 CSPs (33%) were rated as satisfactory while the balance (67%) were rated as marginally satisfactory.<sup>19</sup> While the preparation process for all CSPs was found to be satisfactory, they were found particularly weak with respect to identification of lessons; and developing performance indicators/results frameworks. This assessment will be used as a benchmark for comparison in future reports.

<sup>17</sup> The respondents were grouped into those from ADB's DMCs (5 regional groups) and from donor countries (1 group). The ranges indicated here refer to the range among these groups of respondents.

<sup>18</sup> ADB. 2006 *Stocktaking Report of the Results-Based Country Strategy and Program Process*. Manila.

<sup>19</sup> A four category scale of highly satisfactory, satisfactory, marginally satisfactory and unsatisfactory was adopted by the panel to rate both CSPs and projects.

## 2. Improved Quality of Projects [Indicator set 8]

31. **Quality-at-entry of projects.** The staff panel also carried out a biennial assessment of public sector loan projects. A sample of 31 loans approved in 2004 and 2005 (30% of the total) was assessed<sup>20</sup>. Twenty-five projects (81%) were rated as satisfactory/highly satisfactory and the balance as marginally satisfactory. In case of projects funded from ADF, 76% were found satisfactory. The weakest areas were implementation arrangements and fiduciary arrangements. With respect to the former, the panel felt that implementation weaknesses tended to arise in case of complex projects assigned to implementing agencies without sufficient capacity, calling for better capacity assessments. Another weakness identified is rudimentary, unrealistic implementation schedules. Regarding fiduciary arrangements, improvements are needed in areas of cost estimates and/or financial analysis, sustainability assessments, and financial management arrangements. This assessment establishes a benchmark for future comparisons.

32. **Portfolio Performance.** The quality, performance and timeliness of execution of projects and programs provide a perspective on their development effectiveness. Viewed in this light, there was an improvement in the performance of the projects being implemented in 2005. About 92.8% of projects were rated highly satisfactory or satisfactory compared with the benchmark 86.6% for 2002–2004<sup>21</sup>. This raised the average for 2003–2005 to 88.8%. The number of projects at risk (8.6%) in 2005 was the lowest in the period 2001–2005. It is also significant that, all regions except for the Pacific achieved significantly higher success ratings compared with performance during the period 2002–2004. Portfolio performance in ADF-recipient countries also improved. ADB has adopted an action plan in 2004 which is currently under implementation to enhance the Project Performance Monitoring System by improving design and monitoring framework of loans, programs, and TA projects which will sharpen focus on project results, improve ADB's loan and TA portfolio management, and enable better assessment of portfolio performance.

## 3. Enhanced ADB Capacity to Mobilize Finance for Poverty Reduction - Lending and Disbursements [Indicator set 9]

33. An annual lending growth of 8.5% has been taken as a benchmark. This is the average annual growth necessary to take ADB's lending from about \$6 billion in 2005 to \$9 billion in 2010. If this growth is achieved, it will enable ADB to scale up its operations and to make a more meaningful contribution to poverty reduction.

34. The total amount of loans approved in 2005, from both ordinary capital resources (OCR) and the Asian Development Fund (ADF), amounted to \$5.8 billion, about 11% more than in 2004. This comprised 65 public sector loans for \$5.26 billion, and 7 private sector loans for \$536 million. The ADF share of this amount was 24%, or \$1.38 billion. In terms of the number of loans approved, the total (72 loans in 2005) was below the average (82) for the period 2000–2004. ADB is thus moving toward larger loans with more emphasis on improved design and a simpler implementation process (rather than focusing only on lending increases). This is true mainly for OCR loans but also to a lesser extent for ADF loans.

<sup>20</sup> Detailed criteria under the following 10 assessment areas were adopted to assess the projects (i) development objectives, evaluability and sustainability; (ii) strategic relevance and approach; (iii) technical and economic aspects; (iv) poverty and social aspects; (v) environmental aspects; (vi) fiduciary aspects; (vii) policy and institutional aspects; (viii) implementation arrangements; (ix) risk assessment; (x) ADB inputs and processes.

<sup>21</sup> Based on Quarterly Portfolio Updates prepared by Central Operations Services Office.

35. Public sector disbursement performance in 2005 was 119% of projected, the highest since 1999. For ADF loans, this was 92%. Total disbursements of private and public sector loans in 2005 from both OCR and ADF resources was \$4.7 billion, about 33% higher than in 2004. An annual growth of 5% has been taken as a benchmark. If this rate is achieved until 2010, given projections of repayments and prepayments, ADB's resource transfer to its DMCs will increase from negative levels in 2004 to over \$3.0 billion in 2010.

#### **4. Enhanced ADB Capacity to Mobilize Finance for Poverty Reduction – Cofinancing [Indicator set 10]**

36. The average cofinancing ratio for 2002-2004 of 43% has been taken as benchmark with a target of maintaining an increase in this ratio every year, requiring that the growth in cofinancing exceed the growth in lending. Cofinancing in 2005 amounted to \$7.39 billion, or 127% of total lending by ADB. This is a significant improvement over the benchmark, and has been the result of special circumstances during the year.<sup>22</sup> Cofinancing was generated mainly in OCR projects. Cofinancing for lending products comprised \$2.16 billion from official sources (bilateral development partners and other multilateral financial institutions), and \$5.23 billion from commercial sources.

#### **5. Enhanced ADB Capacity to Mobilize Knowledge for Poverty Reduction [Indicator set 11]**

37. **Articles and Papers by ADB Staff.** In 2005, ADB staff (including ADBI staff) published 61 articles and papers in refereed journals and publications. This will be used as a benchmark. They also presented 115 papers at conferences.

38. **Number of Hits on ADB Websites.** ADB websites are maintained by the Department of External Relations (DER). There was a 108% annual increase in the number of hits on web pages relevant to poverty from 2003 (60,000) to 2004 (124,000). In 2005 there was a further 34% increase to 167,000. The continuing interest in visiting ADB websites was evident from the significant annual increase—the total number of visits increased from about 141 million in 2004 to almost 165 million in 2005.

39. **Knowledge Management Activity.** Following the adoption of a knowledge management framework and establishment of a knowledge management center in 2004,<sup>23</sup> several important knowledge management activities were undertaken in 2005. These included (i) integration of knowledge management activities into the staff performance evaluation exercise; (ii) inclusion of knowledge-related results and indicators in work plans of divisions and departments and institutionalizing an ADB-wide 3-year knowledge products and services work plan; (iii) formation of 10 new communities of practice to cover priority sectors and themes;<sup>24</sup> (iv) establishment of a

<sup>22</sup> The significantly higher total cofinancing volume for investment projects is a result of the much higher costs of projects in which ADB participated in 2005, and its participation in four very large projects costing more than \$1 billion each: ADB, 2006. *Cofinancing*, Manila (IN.90-06).

<sup>23</sup> See ADB, 2004. *Knowledge Management in ADB*. Manila (IN 113-04). The document identified five outputs: (i) improved organizational culture for knowledge capturing and sharing; (ii) improved management system of knowledge products and services; (iii) improved business processes for capturing, sharing, searching using information and communications technology; (iv) establishment of communities of practices (CoPs); and (v) a systematic approach to disseminating and enriching ADB knowledge.

<sup>24</sup> "Communities of Practice are a group of professionals, formally or informally bound to one another through exposure to a common class of problems, common pursuit of solutions, and thereby themselves embodying a store of knowledge" - definition of ADB Knowledge Management Center. In addition to 10 formal CoPs, informal sector and thematic networks also exist.

knowledge management help desk in March 2005 to support operational and non-operational teams to obtain specific information on development issues.

40. Regular annual surveys of ADB staff by an external agency (the most admired knowledge enterprise [MAKE] survey) have assessed how ADB is progressing toward being a learning-based institution. The survey ranks organizations against a framework based on eight knowledge performance indicators.<sup>25</sup> The results of the first survey of staff perceptions yielded a total score of 39.55 against a maximum of 80. The 2005 score will be used as a benchmark.

## 6. More Effective Partnerships to Reduce Poverty [Indicator set 12]

41. **NGO and Civil Society Participation.** The participation of NGOs and civil society in ADB projects has been steadily increasing since the establishment of the NGO Center in 2001. This is mainly in ADF projects (about two thirds of projects with NGO involvement in 2005 were in ADF projects). NGOs participated in about 67% of loan projects approved in 2005, marginally more than in 2003 and 2004, and significantly more than in 2001 and 2002. Participation by NGOs in ADTA and PPTA projects declined from about 49% in 2004 to 39% in 2005, but increased slightly in RETA projects.

42. **Program-Based (Approaches (PBAs)).** PBAs have replaced sector-wide approaches (SWAps), which were used in the 2004 report, as an important partnership indicator. PBAs describe ways of coordinating support for a locally-owned program of development and are much broader than SWAps, as they include general budget support, budget support at sector level, and for projects integrated in SWAps. This is consistent with the way the term was used in the Paris Declaration on Aid Effectiveness.<sup>26</sup> From 2001 to 2005, nine PBAs were approved. In 2005, only two were approved: the Support for Implementation of the Poverty Reduction Program II in Vietnam<sup>27</sup>; and the Education Sector Project II in Samoa<sup>28</sup> (three were approved in 2004). More efforts are needed to structure PBAs with other development partners.

43. **Proportion of Joint CSP and CPR Missions.** Nine CSP missions and 16 country portfolio review (CPR) missions were undertaken in 2005. Nine of these missions (36%)—including 8 in ADF countries—were conducted with the World Bank or other development partners, an improvement on the benchmark of 26% in 2004. More focused attention is being given to developing a systematic partnership framework at the country level, but more ADB-wide initiatives are needed to increase the number of joint programs to enable more efficient resource utilization and to enhance aid effectiveness. Resident missions need to play a more active role.

---

<sup>25</sup> These are ability to: (i) create and sustain an enterprise knowledge-driven culture; (ii) develop knowledge workers through senior management leadership; (iii) develop and deliver knowledge-based projects and services; (iv) manage and maximize the value of enterprise intellectual capital; (v) create and sustain an enterprise-wide collaborative knowledge sharing environment; (vi) create and sustain a learning organization; (vii) manage client knowledge to create value and enterprise intellectual capital; and (viii) transform ADB knowledge to reduce poverty and improve clients' standard of living.

<sup>26</sup> ADB. 2005. *Paris Declaration on Aid Effectiveness*. Manila (November; IN.310-05).

<sup>27</sup> ADB. 2005. *Support to Implementation of Poverty Reduction Strategy II (Vietnam)*. Manila (October; R279-05).

<sup>28</sup> ADB. 2005. *Education Sector Project II (Samoa)*. Manila (November; R341-05).

## D. Inputs to the Poverty Reduction Strategy: Human and Budgetary Resources

### 1. Level and Mix of Human Resources and Staff Motivation [Indicator set 13]

44. **Allocation of Staff in Operations and Resident Missions.** Adequacy of staff and skills in operations is essential for institutional effectiveness. The share of budgeted staff in operations departments increased marginally from 52.2% in 2004 to 52.5% in 2005. In terms of numbers there was a 6.3% increase.

45. The total number of national officers and professional staff in resident missions increased in 2005, compared with 2004 (to 20.5% of total staff against 19.7% in 2004). The total number of sector specialists in operations departments, RSDD and resident missions has increased compared with 2004 and this needs to be maintained given the scaling-up of operations that is envisaged.

46. **Hiring Time.** The time taken in internal recruitment process for hiring staff is targeted to be reduced from the current 65 working days to 55 working days by 2008 (i.e., by 15%) and the external recruitment process is to be reduced from 250 working days to 190 working days by 2008 (i.e., by 24%) by making improvements to internal administrative processes including reducing acceptance periods and reporting times.

47. **Staff with Mission Experience.** In 2006, it has been estimated<sup>29</sup> that operational staff with experience of processing at least four loans comprise about 58% of all operational staff. The corresponding share of operational staff with experience of administering at least four loans is 54%. These will be used as benchmarks for future reports. These figures indicate that many operational staff have less than desirable ADB experience in processing and administering loans.

48. **Staff Development.** A baseline on the training and development of staff will be established in 2006, based on the PDP exercise. A target of ensuring that at least 75% of staff complete their training and development needs by 2008 has been adopted.

49. **Staff Engagement.** A survey on staff motivation and engagement was conducted in 2003. The Budget, Personnel, and Management Systems Department (BPMSD) is planning a number of short surveys during 2006 and 2007 to gauge the motivation of staff and to fine-tune actions if required. This will be followed by the launch of a comprehensive staff engagement survey at the end of 2007.

### 2. Financial Resources [Indicator set 14]

50. Approximately \$48,000 of administrative expenses were incurred per \$1 million approved loans in 2005, indicating an improvement in efficiency over 2004 (about \$50,000). Also administrative expenses per \$1 million of disbursements on projects declined from about \$77,000 in 2004 to \$62,000 in 2005.

51. Efficiency can also be tracked by monitoring the allocation of budgetary resources to operational and non-operational areas, and to project approval and project implementation.

---

<sup>29</sup> Based on a Mission Experience Survey conducted in 2006. Operational mission experience was defined as completion of loan processing regardless of mission roles (i.e., as mission leader and as mission member) and loan administration.

Additional indicators to measure operational efficiency will be developed by the results unit in the Strategy and Policy Department (SPD), RSDD, and BPMSD.

### III. CONCLUSIONS

52. With the 2005 annual poverty reduction report, the process of developing a system to inform Management about progress being made by the institution as a whole in poverty reduction has been considerably furthered. However, some important gaps still remain. It is expected that a more complete reporting on the indicator sets will be possible with the next (2006) report. The monitoring system adopted is broadly harmonized with that adopted by other MDBs and further efforts in this direction will continue.

53. The process of preparing the reports has had a significant impact on efforts towards focusing on results. There is now much closer monitoring of poverty reduction and achievement of the MDGs, as well as progress on growth, basic infrastructure and private sector development. Useful partnerships with the World Bank and with regional UN agencies have been established for use and development of data. The process of biennial quality at entry assessments of CSPs and projects has begun. A close tracking of knowledge management has been initiated. ADB's efforts at developing effective partnerships are also being monitored. Benchmarks on human and financial resources have been established for improving the efficiency of deployment of inputs.

54. Management and ADB's Board have indicated that they view the annual poverty reduction reports as informative and useful. The reports bring to Management's attention areas where improvements are necessary and where corrective actions need to be taken in order to improve ADB's effectiveness in implementing its poverty reduction strategy.

55. Assessments made in the reports indicate that greater attention is needed in several areas. Better data on measuring the indicators at the impact level are required. Support is being provided for capacity development in DMCs for this purpose. Overall efforts will also require improved capacity in ADB as well as in DMCs. Support for such capacity development is a high priority under ADB's *Revised MfDR Action Plan*.<sup>30</sup> Further efforts at improving quality of operations at entry and during implementation are necessary. Given the current proliferation of reports, the monitoring and reporting system needs to be rationalized.

---

<sup>30</sup> Managing for Development Results in ADB: Revised Action Plan (IN.241-06). 6 September 2006.