2016 Annual Evaluation Review

Distribution of this document was restricted until it was discussed by the Board of Directors on 11 April 2016. ADB discloses the document to the public, along with Management’s Response, in accordance with ADB Public Communications Policy 2011.

Reference Number: RPE:OTH 2016-07
NOTE

In this report, "$" refers to US dollars.

<table>
<thead>
<tr>
<th>Director General</th>
<th>V. Thomas, Independent Evaluation Department (IED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team leader</td>
<td>J. Tominaga, Principal Evaluation Specialist, IED</td>
</tr>
<tr>
<td>Team members</td>
<td>A. Brubaker, Senior Evaluation Specialist, IED</td>
</tr>
<tr>
<td></td>
<td>M. Diza, Evaluation Officer, IED</td>
</tr>
<tr>
<td></td>
<td>N. Gamo, Senior Evaluation Officer, IED</td>
</tr>
<tr>
<td></td>
<td>G. Kilroy, Evaluation Specialist, IED</td>
</tr>
<tr>
<td></td>
<td>R. Lumain, Senior Evaluation Officer, IED</td>
</tr>
<tr>
<td></td>
<td>M.C. Malilay, Evaluation Assistant, IED</td>
</tr>
<tr>
<td></td>
<td>R. Obfenda, Associate Knowledge Management</td>
</tr>
<tr>
<td></td>
<td>Administrator, IED</td>
</tr>
<tr>
<td></td>
<td>H. Son, Principal Evaluation Specialist, IED</td>
</tr>
</tbody>
</table>

The guidelines formally adopted by the Independent Evaluation Department on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of the management of the Independent Evaluation Department, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

In preparing any evaluation report, or by making any designation of or reference to a particular territory or geographic area in this document, the Independent Evaluation Department does not intend to make any judgment as to the legal or other status of any territory or area.
Abbreviations

ADB – Asian Development Bank
ADF – Asian Development Fund
AER – annual evaluation review
AIIB – Asian Infrastructure Investment Bank
ANR – agricultural and natural resources
CAPE – country assistance program evaluation
CFL – compact fluorescent light
COP21 – 21st Conference of the Parties
CO₂ – carbon dioxide
CPS – country partnership strategy
CPSFRV – country partnership strategy final review validation
ESG – environmentally sustainable growth
FCAS – fragile and conflict-affected situations
GDP – gross domestic product
IED – Independent Evaluation Department
MARS – management action record system
OCR – ordinary capital resources
PCR – project completion report
PPP – purchasing power parity
PRC – People’s Republic of China
PSOD – Private Sector Operations Department
RCI – regional cooperation and integration
RRP – report and recommendation of the President
SDG – sustainable development goal
WUS – water and other urban infrastructure and services
XARR – extended annual review report
# Contents

Acknowledgments vii  
Foreword ix  
Executive Summary xi  
Management Response xxi  

**Chapter 1: Development Challenges in Asia and the Pacific**  
A. Major Challenges for Asia and the Pacific 3  
B. Changing Operating Environment of ADB 6  

**Chapter 2: Performance of ADB Operations**  
A. ADB Country Programs 9  
B. Sovereign Operations 13  
C. Nonsovereign Operations 24  
D. Chapter Summary 29  

**Chapter 3: Environmentally Sustainable Growth**  
A. Context and Challenges 31  
B. Support for Environmentally Sustainable Growth 33  
C. Country Partnership Strategies and Portfolio Trends 34  
D. Issues for the Environmentally Sustainable Growth Agenda 39  
E. Chapter Summary 40  

**Chapter 4: Recommendations and Follow-Up**  
A. Acceptance of Evaluation Recommendations 41  
B. Implementation of Evaluation Recommendations 43  
C. Next Steps 45  
D. Chapter Summary 46  

**Chapter 5: The Way Forward**  
A. Building Resilience to Risks 47  
B. Climate Change and Environmental Sustainability 48  
C. Sustaining Inclusive Growth 49  
D. Private Sector 51  
E. Support for Middle-Income Countries 52  
F. Institutional Support 53  
G. Recommendations 55
APPENDIXES

1 Independent Evaluation Reports Completed in 2015 58
2 Evaluations Discussed by the Board of Directors and the Development Effectiveness Committee in 2015 61
3 Summary of Major Reports in 2015 62
4 Evaluation Methods for Public Sector Operations 69
5 List of Linked Documents 70
Acknowledgments

This report was prepared by a team led by Jiro Tominaga, Principal Evaluation Specialist, Office of the Director General, Independent Evaluation Department (IED), Asian Development Bank (ADB) under the guidance of Vinod Thomas, Director General. Team members included Andrew Brubaker, Michael Diza, Noel Gamo, Garrett Kilroy, Renato Lumain, Ma. Catherine Malilay, Rachel Obfenda, and Hyun Son.

Consultants engaged for the study were, for country program operations, Liz Biglang-Awa; for environmentally sustainable growth, Adele Castillo; for sovereign operations, Maria Isabel Ferino, Alexis Arthur Garcia (regression analyses), Brenda Katon, and Alessandro Pio; and for the management action record, Brahm Prakash (also on development challenges in Asia and Pacific) and Sergio Villena.

The peer reviewers were Deepak Bhattasali, Affiliated Lecturer at McCourt School of Public Policy, Georgetown University; Elan Satriawan, Senior Lecturer, Gadjah Mada University; Kapil Thukral, Principal Evaluation Specialist, IED, ADB; Marilou Uy, Director of the G24 Secretariat; and Hans van Rijn, Principal Evaluation Specialist, IED, ADB.

Extensive comments were received from many departments and offices within ADB; these were considered and led to many improvements.

IED remains fully responsible for the report.
Foreword

The Asia and Pacific region has been a global driver of economic growth and poverty reduction. Vulnerabilities and downside risks in the global and regional economies, however, are substantial, threatening continued progress. New challenges also call into question the economic approaches that delivered success in the past. Climate change and environmental degradation, increasing income inequality, and a growing need for social spending to address a vast demographic transition necessitate new solutions. Greater inclusion and environmental sustainability will have to be defining features of the region’s growth process.

As the premier regional development institution, the Asian Development Bank can help countries respond to global and regional uncertainties. It will need to support countries to build resilience against climate change, environmental degradation, and natural hazards. It should help ensure that economic growth is inclusive through support for quality education, health services, well-targeted social policies, gender equality, and infrastructure investments whose social benefits exceed costs. ADB must foster inclusion in its non-sovereign operations and seek private sector solutions for service delivery with substantial social benefits. Finally, it can engage with middle- and high-income countries to deepen its capacity to advise on cutting edge issues.

The ongoing efforts to develop ADB’s new corporate strategy, Strategy 2030, and to sharpen its corporate directions are timely, given the structural shift in the regional economic prospects and the ADB’s operational environment. This 2016 Annual Evaluation Review shows that ADB has made important progress in achieving some of the targets of the current long-term strategic framework, Strategy 2020, and in improving its operational performance. ADB leadership has placed greater importance on evaluation findings and recommendations, both in strategy and implementation, and taken action. However, responding to emerging challenges requires stronger efforts and results and a clear and decisive shift in directions.

First, it will pay for ADB to focus on responses or solutions for themes such as urban management, inclusive infrastructure, and climate disaster resilience and not be confined within sectoral boundaries. Second, ADB must leverage the links among sectors, most significantly between infrastructure and climate action as well as between infrastructure and inclusion. Third, to ensure that these directions go beyond statements of intent, it will be essential for ADB to discuss staffing and budget allocation plans together with the priorities of Strategy 2030—and not to consider the budget separately from the strategy.

ADB’s current Strategy 2020 adopts inclusive growth, environmentally sustainable growth, and regional cooperation as guiding principles. These agendas remain valid leading up to 2030. ADB is thus well positioned to make a difference. It needs to take bold steps to make these directions operational, to link strategy to budget and actions, and to achieve stronger results on the ground.

Vinod Thomas
Director General
Independent Evaluation
Executive Summary

The 2016 Annual Evaluation Review (AER) comes as the Asian Development Bank (ADB) is preparing its new corporate strategy, Strategy 2030. Based on an analysis of findings of recent evaluations, the report assesses the factors driving the results and performance of ADB operations. It reviews the institution’s efforts to achieve environmentally sustainable growth, one of the three strategic agendas of the ongoing Strategy 2020. This review complements the recent studies by Independent Evaluation on the other two strategic agendas—inclusive growth and regional integration—the findings of which are also reflected in this report. In addition, by reviewing how ADB implements evaluation recommendations, it examines ways to facilitate ADB’s efforts to incorporate evaluation findings in its operations effectively. Based on these analyses, this report draws out the priorities that will enable ADB to help achieve continued progress in Asia and the Pacific.

Development Challenges in Asia and the Pacific

After a sustained period of growth and poverty reduction, countries in the Asia and Pacific region are now navigating a new environment marked by slower rates of economic and international trade expansion. Some countries are also rapidly aging, which will likely put a strain on economies, health care and pension systems. The globalization of markets has brought significant benefits, but it has also made countries vulnerable to external shocks.

The threat of climate change is intensifying, with the evidence of global warming becoming clearer inter alia in the rising frequency and ferocity of natural hazards. In addition, long-standing social tensions can perpetuate poverty in selected areas, even in prosperous countries. The growing recognition of the negative impact of unequal income distribution on growth emphasizes the need for inclusive growth. Initiatives of mobile payment systems and microfinance show the considerable potential for the private sector to offer effective solutions for development challenges.

In the coming decades, countries in the region will have to confront four major challenges. First, they need to make their economies resilient to shocks from economic crises, social tensions, and natural hazards. Second, they have to tackle climate change and environmental destruction. Third, they must sustain inclusive growth to prevent inequality from hurting growth and poverty reduction. Fourth, they need to seek private sector solutions to boost the sustainability of results and bring innovation. Given the cross-country and cross-sectoral dimension of these challenges, solutions will require a multidisciplinary understanding of the causes and effects.

The operating environment of ADB is also changing. The emergence of new development finance institutions, the approval of the Sustainable Development Goals, and the new climate change agreement negotiated in Paris at the end of 2015 will affect the strategic directions taken by ADB. As more Asian countries become upper middle-income countries, ADB needs to reflect on the best approach to meet their needs. With vibrant developments in the global setting, ADB will have to brace itself to meet new challenges and make valuable and timely contributions.
Performance of ADB Operations

ADB has made progress in achieving some of the key Strategy 2020 targets by measures of how operations are labeled. A consistent 80% of its operations have been in the five operational core areas of Strategy 2020. The recent evaluation of the operations funded by the Asian Development Fund (ADF) X and XI shows that progress has been made in mainstreaming gender in ADB operations, reaching the 50% target in 2012 in ADF countries and a 59% 3-year rolling average for gender-themed or gender-mainstreamed projects in 2014. Operations labeled as supporting regional cooperation and integration have come close to the 30% target set for 2020. The sections that follow review the conclusions of recent evaluations of the results and performance of ADB country programs and of sovereign and nonsovereign operations beyond the fulfillment of these targets.

Country programs. About two-thirds of ADB country programs examined in country assistance program evaluations and validations of country partnership strategy final reviews by Independent Evaluation since 2010 met their stated objectives. A comparison among the validated country partnership strategy final reviews shows better ratings for more recent programs. Many country programs have received high marks for relevance, for example, in 2015 for Bangladesh, People’s Republic of China (PRC), Maldives, and Timor-Leste. Responding to climate change is a growing priority in ADB country programs.

Evolving country needs have meant that some country programs have made substantial adjustments to their original plans. Sustained dialogue with governments and other stakeholders based on strong analytical work is needed to ensure that the initial program captures country constraints and identifies priorities, and that it would respond to evolving country needs. Country programs often receive positive marks for effectiveness, but the small share of completed projects and the limited availability of good data often limit assessments.

Delays in project implementation can be a major factor in pulling down project outcomes. To help avoid start-up delays, efforts are being made to bridge differences between ADB and country systems in land acquisition and resettlement, and to improve the capacity of governments to comply with ADB standards designed to minimize social and environmental costs. Efforts have also been made to address government capacity and lack of familiarity with ADB procurement and contract procedures, and the limited delegation of responsibilities to ADB resident missions. For example, in Indonesia, ADB is working with the government and development partners to facilitate use of country safeguard systems, subject to equivalence and acceptability principles, in ADB financed projects, but their effect on project implementation is not clear. On sustainability, weak operations and maintenance arrangements hamper the likelihood that program results will last.

Sovereign operations. The share of ADB-financed projects rated successful or highly successful by Independent Evaluation has increased in recent years. For project completion reports (PCRs) issued between July 2012 and June 2015, the share of validated projects rated successful or highly successful was 72%, well above the shares in 2010–2012 (59%) and 2007–2009 (60%). However, the upward trend is not evident from longer-term data, which indicate that the recent improvement is a recovery from the gradual deterioration of success rates that occurred over 2002–2010.
If ADB is to maintain solid success rates, it needs to continue emphasizing project outcomes. The actions set out in the midterm review of Strategy 2020 are essential, particularly as the success rate in 2015 dropped from the 2014 level. The evaluation of ADF X and XI operations shows that when ADB pays greater attention to project design and anticipates common implementation challenges this contributes to better outcome ratings. Upstream work to understand better the development challenges is useful.

Analyses to identify the determinants of successful development projects have shown that the quality of the project officer is key. Practically all thematic and corporate evaluations conducted by Independent Evaluation in the past 2 years corroborate this finding, pointing to the need for careful planning in order to achieve a staffing and skill mix that aligns with the new corporate priorities under Strategy 2030. In addition, the data suggest that the timing of project approval matters. Projects approved during the last two months of the year, when a high concentration of ADB’s project and program approval often occurs, generally have a lower chance of receiving a positive rating at completion. Given that the analysis uses data of completed and rated projects, the effects of recent efforts to increase project readiness at entry are not reflected. The mechanisms that link the success rate and approval at year-end merit further examination.

A review of success rates also shows that the projects with high environmental risks (Category A) perform better than those with lower environmental risks (Category B and Category C). Similarly, two recent evaluations—Effectiveness of Asian Development Bank Partnerships and ADB’s Efforts on Regional Cooperation and Integration—found that cofinancing and regional cooperation projects have higher success rates than the ADB average. In all these cases, the project preparation and supervision process typically involves more efforts to address high environmental risks and coordinate with development partners. These examples point to the value of scrutiny by development partners or governments, and the managerial oversight associated with the due diligence process, even as they make operations more intense.

There has been a substantial improvement in the performance of operations outside the infrastructure sector, particularly in education and public sector management. The non-infrastructure sectors improved their success rate to 75% in the 2013–2015 PCR reporting years from 53% in the preceding period. A statistical analysis of project data shows that the infrastructure sectors, defined as operations in energy, transport, information and communication technology, and water and other urban infrastructure, did not yield significantly higher success rates than other sectors.

The improvement in the success rate of public sector management operations narrowed the gap between project and program operations. Flexibility and timely support are strong advantages of policy-based loans, but the reduced link between financing and outputs calls for careful upstream assessment, dialogue with country counterparts, and monitoring. Some public sector management operations are closely linked with supporting fragile and conflict-affected situations (FCAS) in the Pacific. Given that many people live in countries exhibiting some dimensions of fragility in parts of the country, limiting FCAS to a country-based concept will not be enough to reduce persisting poverty and social distress. A participatory approach to designing and implementing the intervention and sustained engagement are key to affecting the underlying drivers of tension, which typically are rooted in a country’s institutions and history.
Nonsovereign operations. Given the robust growth in new approvals, nonsovereign operations will be key determinants of success if ADB is to meet its strategic goals, especially in light of the likely operational expansion following the merger of ADF and ordinary capital resources. Based on the extended annual review reports completion year, an improvement can be seen between the last two non-overlapping 3-year batches: 67% of projects were rated successful or highly successful in 2013–2015 and 52% in 2010–2012. The success rate based on project approval year has also been improving: 82% of projects approved over 2008–2010 were rated successful—well above the 62% for projects approved in 2005–2007. Infrastructure projects are the main component of improvement in the rating. The main value additions by ADB in these operations lie in providing assurance to other financiers and contributing to better project design and implementation.

As ADB gears up to expand nonsovereign operations, two issues must continue to be addressed: first, identifying projects ready for private sector investments and, second, increasing the share of projects that promote inclusive and sustainable growth. Some are concerned that the pursuit of greater inclusiveness could pull down the investment profitability of nonsovereign operations. However, project evaluations suggest that ADB will not have to trade profitability for development results. However, the important links between private sector operations and public sector efforts to improve the enabling environment mean that institutional coordination between ADB sovereign and nonsovereign operational departments needs to become commonplace, as was noted in the midterm review of Strategy 2020.

Environmentally Sustainable Growth

Environmental challenges, especially dangerous air pollution levels, degradation of fresh water resources, and soil erosion, undermine development gains. They are linked with climate change and the recent increase in natural hazards, which have become leading concerns for the region and ADB. This was recognized in ADB’s Strategy 2020, its Environment Operational Directions, the midterm review of Strategy 2020, and the action plan arising from the midterm review. It is also reflected in the Climate Change Strategy, and more recently, in the commitment of the ADB president to more than double lending from ADB’s own funds for climate-change-related projects from $2.8 billion in 2014 to $6 billion in 2020. ADB targets its support for climate change to be about 30% of its total investments.

Environmentally sustainable growth (ESG) is one of the three strategic agendas of Strategy 2020. Since the adoption of Strategy 2020 in 2008, the prioritization of ESG has grown in country partnership strategies. This has been matched by an increase in projects tagged as ESG, from less than 10% to more than half of the ADB portfolio over 2004–2014. However, a close review suggests that ESG projects vary significantly in their environmental content and some projects are tagged as ESG without sufficient justification, which leads to an overestimation of ESG support. The precision of ESG tagging needs to be improved as inaccurate information on the progress toward ESG goals inhibits the ability of ADB to aggregate the extent of its ESG support and develop and implement corrective measures.

Most ESG projects are in traditional infrastructure sectors providing environmental co-benefits. The energy sector is the most advanced in integrating environmental concerns; incorporating environmental concerns into rural and urban projects is more challenging as such projects are multisectoral in nature. However, this review also found a number of innovative approaches in sustainable urban transport and urban development, which
focus on urban livability and resilience to climate change. Wetland protection and biodiversity conservation projects also provide a potentially useful way to apply an integrated approach.

To guide and encourage innovation and mainstreaming on environmental and climate change issues, strategy documents should provide greater clarity on these issues and elevate their profile. ADB needs to establish a framework for ESG in operational terms and to provide guidance to sector staff on the corporate targets for ESG.

Given the interlinked issues underlying ESG challenges, some of the ongoing attempts to bolster sector and thematic groups that cut across sectors and enhance cross-regional department knowledge-sharing are promising. For such interventions, the emphasis on an integrated and spatially-oriented approach based on thematic perspectives will be key. Finally, it is vital for ADB to increase its focus on climate change, but it also needs to maintain the attention it pays to other ESG priorities that are not addressed by climate change projects, e.g., local air pollution, water quality, or natural resource management.

**Recommendations and Follow-up**

The Development Effectiveness Committee (DEC) of the ADB Board of Directors has placed greater importance on evaluation findings and recommendations, while the President and ADB Management have sought to use them. There have been regular exchanges between Management and Independent Evaluation on evaluation findings.

The pattern of recommendation acceptance has changed in recent years. First, Management has begun breaking up recommendations into specific subrecommendations, in consultation with Independent Evaluation. Management has indicated that for recommendations to add value, they need to be clear, concise, and practical: unbundling recommendations is an attempt to make them more actionable. Second, there has been more selectivity in accepting recommendations, reflecting in part the close attention paid by ADB to setting realistic expectations for follow-up actions. The share of recommendations agreed to by Management dropped from the near full acceptance over 2010–2013 to an average of 65% (including partly accepted) in 2014 and 2015. The most frequently cited reason for rejecting a recommendation was that the recommended actions were already being taken. Of the agreed recommendations, the share of those with qualified acceptance is high, indicating partly an attempt to recognize the implementation realities of follow-up actions.

The closer attention paid by Management to follow-up actions is a highly positive development that could translate into a higher rate of recommendation implementation. Independent Evaluation’s validation rated as **fully or largely implemented** 18 out of 26 actions (69%) on accepted recommendations that became due between October 2014 and September 2015, a proportion that can be increased in coming months in view of the greater selectivity in acceptance.

Independent Evaluation confirmed three out of four of the self-assessment ratings on completed actions. Many of the differences that occur arise from differences in the expected scope of actions needed to implement the recommendation. The management action record system (MARS) does not track actions related to the recommendations that Management rejects. Yet if these are essential suggestions following evaluation, they would need to be followed up, with the consent of DEC, as over time a convergence of views may emerge. As the number of actions for
recommendation implementation increased, the challenges to assessing the collective effects of these actions on the issues raised in the recommendation also grew.

Interaction between Management and Independent Evaluation has strengthened considerably, but collaborative efforts continue to be needed. Independent Evaluation can and should continue to be clearer and more specific in its recommendations, while not becoming overly prescriptive on the details. More frequent communications are needed so Management and Independent Evaluation develop a shared understanding of the expected actions, particularly when action plans are formed.

It would be useful for Independent Evaluation, Management, and the Board to capture the broader context of the recommendations issued in a report rather than only examining the status of piecemeal actions. Monitoring implementation progress for the entire report by including short updates on ongoing actions in addition to the validation of completed actions could offer a more comprehensive picture. Alternatively, the actions entered into the MARS could have the same due date (e.g., 2 years after the report) so that progress can be reported in a less fragmented way.

Another option would be to assign accepted, rejected, or partly accepted category and track the action status by the headline recommendations rather than by broken down subrecommendations. For partly accepted recommendations, the Management response could indicate which parts are not accepted. The action plan could list actions for all parts of the recommendation that are accepted with one completion date, so that on the due date, the recommendation as a whole, with all its resulting actions, can be reviewed comprehensively. To form a shared vision on the role of MARS in institutional learning, there is a need to review the practices and processes at various stages of the cycle from the formulation of recommendations to reporting on follow-up actions.

The Way Forward

As the environment in which the Asia and Pacific countries operate changes, ADB must change too. It not only needs to do things well, but also to do the right things by offering solutions to meet the challenges the region faces. Evaluations point to possible future directions, many of which have to varying degrees been accepted in ADB’s emerging approaches.

Building resilience to risks. Mainstreaming and increasing disaster risk management efforts, building-back-better after a disaster hits, and incorporating disaster risk reduction principles into projects before disaster strikes are crucial. ADB has established a corporate approach to ensure that project performance is not compromised by climate change, which can help this effort. ADB can be a catalyst in creating disaster risk finance options. In the meantime, the impact of climate change on food insecurity remains a major concern. Support to address the erosion of household incomes in addition to supply side enhancement through infrastructure building will be important to manage these risks.

Strengthening institutions that encourage participation in public policy and provide pathways for social mobility could help reduce social conflict arising from persistent poverty from fragile and conflict situations. To manage the risks from economic shocks, ADB could complement the efforts of the International Monetary Fund by building on its existing efforts in regional cooperation initiatives. Finally, risk management in
projects and programs, particularly through the rigorous application of environmental and social safeguards, is vital.

**Climate change and environmental sustainability.** For ADB to align itself with the Sustainable Development Goals and the growing consensus on global actions to respond to climate change that was demonstrated at the 21st Conference of the Parties meeting in Paris in December 2015, climate change and environmental sustainability need to be at the center of its operational strategy. It would be useful if ADB were to help countries implement and monitor the Intended Nationally Determined Contributions commitments that were established in Paris. ADB should also step up its knowledge program on infrastructure and climate change. A priority should be to ensure that ADB provides sufficient financing and human resources to support these activities. ADB should also continue to explore ways to access and use climate finance and work in collaboration with involved parties. ADB needs to articulate its definition of ESG, including the extent and nature of ADB’s support, and to clarify the corporate direction in this area. Improved precision in ESG project classification tagging would help with this. Developing interventions that cut across sectors and countries will be key to address the interlinked underlying issues.

**Sustaining inclusive growth.** Sustaining growth requires countries to find new drivers for growth while extracting more mileage from their existing industries. At the same time, the negative impact of a high level of inequality on growth makes more inclusive growth imperative. Better access to education and health care, well-targeted social policies, and effective support for greater gender equality can help reduce the gap. ADB should maintain its focus on infrastructure, given its potential impact on growth, the regionwide need for high-quality infrastructure, and of its potential to reduce the opportunity gaps between income groups. ADB support to improve environments in cities would have a great impact as cities are at the confluence of the challenges from natural hazards, climate change, and inclusive growth.

**Private sector.** Private sector operations are vital to the strategic direction of ADB. ADB needs to foster inclusive growth while ensuring financial viability to sustain results—development results and investment profitability are both possible at the same time according to the project evidence thus far. The high success rate for infrastructure nonsovereign operations shows that such operations can make significant contributions to much-needed private sector participation in infrastructure financing. Beyond financing, seeking private sector solutions for service delivery could induce innovation and increase the sustainability of results.

**Support for middle-income countries.** As more countries in the region become middle-income countries, demands for better public services and social welfare programs will grow. Efforts by ADB to develop the skills and expertise to offer solutions in these areas will be vital. Experience also shows that upper middle-income or high-income countries with limited or no borrowing from international financial institutions occasionally need immediate financing, as has happened in previous economic crises. To be prepared for such situations, continued dialogue with counterparts in these countries will help ADB to update its country knowledge and learn about emerging issues affecting borrowing middle-income and low-income countries. This would also deepen the analytical base and improve the quality of ADB advice.

**Institutional support.** The challenges of the future are cross-country and cross-sectoral. ADB needs to place more emphasis on cross-boundary themes and on building an alliance of partners from diverse stakeholders and countries. Evaluations at all levels
and of all kinds of operations point to the value of high-quality analytical work and staff. Resident missions can play an important role in facilitating and guiding the dialogue to leverage the resources and expertise of partners and gain knowledge on changing needs in the country. They are also essential for ADB to pay close attention to projects under preparation and implementation. Impact evaluation, which can inform policy decisions, improve project efficiency and effectiveness, and guide resource allocations is a potentially useful tool.

**Recommendations.** This AER offers the following five recommendations that have been made in the context of recent evaluations and have found varying degrees of positive responses already.

1. **Include efforts to address two vital links: (i) between climate and environmental challenges and infrastructure investment, and (ii) between economic growth and inclusion as key strategic pillars of Strategy 2030.** The links among climate change, environmental sustainability, resilience to risks, and inclusive growth present huge challenges and opportunities for ADB to address multiple challenges effectively. ADB should seize these. For example, ADB support to address problems in cities offers the potential for it to have a large impact. ADB can also capitalize on the growth–income distribution link by increasing its portfolios for education, health, and social protection. The significant improvement in the performance of ADB education projects in recent years is encouraging. Supporting greater gender equality is also an effective way to address the relationship between growth and inequality. The ADB approach to these two relationships needs to be articulated in Strategy 2030 and periodically monitored by Management and Independent Evaluation.

2. **Strengthen synergy between sovereign and nonsovereign operations.** As ADB ramps up its nonsovereign operations and their contributions to inclusive growth, it needs to exploit the potential for greater synergies between sovereign and nonsovereign operations. There needs to be a clear signal from the Management to favor collaboration between sovereign and nonsovereign operations. Management and the Board need to support enhanced, but sound risk-taking and innovation and to provide room for learning from success and failure of collaborative work. Private sector work must have a results agenda for development effectiveness that is embedded in Strategy 2030. The progress against the stated results can be monitored periodically.

3. **Continue strengthening the operational quality assurance system to deal with the increase in projects that cut across boundaries.** As many of the challenges the region is facing are cross-sector and cross-country, the solutions offered by ADB will also have to be multidisciplinary. Responding to evolving country needs requires analytical work and policy dialogue across sectors and themes. Forging partnerships with stakeholders and contributing to regional initiatives will also be vital. Evaluations suggest that extra due diligence and quality assurance among partners and managerial oversight helps to ensure operational quality, but they require additional time and resources, which may cause tension with efforts to increase institutional efficiency. Possible areas for further analyses to strengthen the quality assurance system are mechanisms to ensure oversight and the adequacy of resources allocated for upstream analyses and processing. ADB will also need strong monitoring systems to enable mid-course adjustments for projects. The lessons from greater delegation of project management responsibilities to resident missions could provide useful insights.
4. **Management and IED to develop effective ways to capture the broader context of evaluation recommendations and ADB efforts to address them.** The current review of recommendation follow-up actions presents a very important yet limited picture of institution-wide efforts to address the issues identified in evaluations. It is based only on the action items that are due for completion. Action plans need to capture the broad context of the recommendations and the Management response. For its part, IED needs to make recommendations that are clear, actionable, and practical in the eyes of Management. Management and IED can jointly develop a system to address these challenges. To reduce the challenge in capturing the progress of follow-up actions, Management and IED could consider agreeing on an action due date for the entire report or headline recommendations rather than for individual actions.

5. **Develop a strategy for talent management, cross-sector collaboration, and budget allocations that matches the priorities of Strategy 2030.** If ADB is to expand operations and ensure development effectiveness at the same time, it will require increased analytical work, policy dialogue, stakeholder consultation, multisectoral collaboration, project preparation, and supervision. Various evaluation reports underscore the value of adequate staffing with the right skill mix, highlighting the need for ADB to prepare a staffing strategy to match the priorities of Strategy 2030. ADB’s ability to engage with governments and other clients depends on the caliber and credibility of its staff. Incentive mechanisms are required to encourage cross-sector collaboration and innovation, supported by budget allocations. A key initial action would be to ensure that discussions on budget allocations and staffing are done together with the deliberation of strategic priorities, and that a follow-up mechanism is in place to monitor progress.
Management Response

Management Response to the 2016 Annual Evaluation Review

On 4 April 2016, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of the Management:

1. The 2016 Annual Evaluation Review (AER) synthesizes the main findings of evaluation studies conducted by the Independent Evaluation Department (IED) in 2015. Management has earlier responded to the individual studies. In this response, Management focuses on the overall recommendations of the AER. The recommendations are broadly acceptable.

2. Recommendation 1. Include efforts to address two vital links: (i) between climate and environmental challenges and infrastructure investment, and (ii) between economic growth and inclusion as key strategic pillars of Strategy 2030. Management agrees in principle. Strategy 2030 is under preparation, and it is premature to discuss specifically how interlinkages between climate change, environmental sustainability, and inclusive growth will be articulated. However, we will certainly explore these further under the upcoming strategy. Inclusive growth and environmentally sustainable growth are already Strategy 2020 agendas, and the midterm review of the strategy has reiterated support for both. Operational targets for education and health were included in the updated corporate results framework, and established targets for gender mainstreaming and social protection are regularly monitored.¹

3. Recommendation 2. Strengthen synergy between sovereign and nonsovereign operations. Management agrees. Collaboration between regional departments and the Private Sector Operations Department has improved in recent years under the “One ADB” framework, through increased staff outposting, coordinated business development, and joint project processing. ADB’s private sector work has a strong results agenda for development effectiveness, closely aligned with Strategy 2020. As ADB’s corporate strategy evolves, further efforts to intensify synergies and strengthen development effectiveness will continue.

4. Recommendation 3. Continue strengthening the operational quality assurance system to deal with the increase in projects that cut across boundaries. Management agrees in principle. ADB has long recognized the importance of quality assurance. The recently-approved operational efficiency initiatives will further enhance quality assurance mechanisms. We recognize that adequate resources are required for upstream analysis and processing, as suggested by IED. ADB allocated over 40% of its operational expenses to project preparation in 2015. However, delivery of quality infrastructure will require more and better skills.

¹ The updated ADB results framework was approved in January 2015.
5. **Recommendation 4.** Management and IED to develop effective ways to capture the broader context of evaluation recommendations and ADB efforts to address them. *Management agrees.* At the same time, Management requests IED to improve the quality, implementability, and value addition of its recommendations. Management sometimes struggles with recommendations that are too general or that capture what ADB is already doing. One possible way forward could be for IED and Management to agree on the core problem and its causes in advance, and work out solutions consultatively. Management is ready to work closely with IED on this.

6. **Recommendation 5.** Develop a strategy for talent management, cross-sector collaboration, and budget allocations that matches the priorities of Strategy 2030. *Management agrees in principle.* However, it is too premature to determine the necessary financial and staffing requirements under Strategy 2030. Appropriate resource allocations are not entirely within Management’s control, and will follow the strategy, rather than the other way around. With respect to talent management, ADB introduced a basic framework in 2014. This may require adjustments, particularly once Strategy 2030 is adopted. With respect to cross-sector collaboration, the restructuring of the eight thematic groups and seven sector groups in 2014 has enhanced their mandate, to promote collaboration across sectors. The performance review process has been further strengthened, to capture staff contribution to cross-sector collaboration. With respect to budget allocation, ADB already has a Work Program and Budget Framework process to discuss staffing and budget allocations along with workplan priorities. For example, ADB’s 2016–2018 Work Program and Budget Framework anticipates a rise in lending following the combination of the Asian Development Fund lending operations with ordinary capital resources balance sheet in 2017, and projects a net increase of 4% in staff strength over three years in the base case operational scenario.
Management Response to 2016 Annual Evaluation Review: Recommendations and Follow-Up (Chapter 4)

On 30 March 2016, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of the Management:

I. Overall Comments

1. Management agrees with the Independent Evaluation Department (IED) that mutual interaction has strengthened considerably over the past couple of years. At the same time, both parties believe that there are still areas for improvement, with respect to process and substance. In this regard, Management will be very happy to discuss new ideas on how to better frame IED recommendations, as well as on their implementation.

II. Acceptance of Evaluation Recommendations

2. Management has always welcomed evaluation recommendations that are clear, actionable, and that add value (para. 135). On the other hand, Management has struggled with recommendations that are too general or capture what the Asian Development Bank (ADB) is already doing. The rejection of some recommendations is not necessarily a function of higher resource implications, and useful recommendations will be accepted. A dilemma for both IED and Management relates to the degree of specificity of recommendations. If recommendations are too broad, it is difficult to prepare balanced action plans. If recommendations are too prescriptive, they may not necessarily address the core problem. One possible way forward could be for IED and Management to agree on the core problem and its causes in advance, and work out solutions consultatively.

3. As agreed with IED, when a headline recommendation combines multiple (sometimes disparate) sub-recommendations, Management finds it useful to break up the headline recommendation into actionable sub-recommendations, for purposes of acceptance or rejection (para. 135). Qualified acceptance applies in cases when certain preconditions (often outside ADB’s control) have to be met before actions can be implemented, or when it is important to clarify Management’s understanding of the evaluation recommendations (para. 138). Qualified acceptance and partial acceptance may not necessarily substitute each other (para. 139).

III. Implementation of Evaluation Recommendations

4. Management is committed to implementing accepted recommendations, through the formulation of action plans in the Management Action Record System (MARS). We note that disconnects between validations and self-assessment often arise from divergent expectations (para. 144). While action plans will continue to be prepared by Management, we are always open to discussion with IED to arrive at a common understanding. Since action plans are formulated throughout the year, shortly after the Development Effectiveness Committee meeting on the corresponding report, IED is always welcome to discuss these with ADB teams, even before the validation process in the fourth quarter.  

---

2 We find the analysis suggesting that a high rate of acceptance does not necessarily lead to a high rate of implementation to be inconclusive as presented in para. 146 (and Linked Document F). The sample size for
Management agrees that tracking sub-recommendations with different target completion dates can be challenging (para. 150). This could be addressed by greater efforts on IED’s part to provide clearer recommendations that do not need to be split up, thus simplifying reporting requirements. Alternatively, actions against accepted or partly accepted sub-recommendations could be self-assessed and validated at a common completion date for a fuller picture. However, as stated in the past, Management does not see the utility of tracking recommendations that are rejected—since rejection implies that recommendations are not considered “essential” in the first place (para. 149). Instead, Management is willing to revisit any rejected recommendations, should there be new information to justify them.

IV. Next Steps

Management is ready to further improve coordination with IED—both during the preparation of evaluation recommendations and action plans (para. 152). The options presented by IED are interesting (paras. 153–154), and we would be happy to discuss details to arrive at a practical agreement. Learning from experiences and good practices of other organizations could certainly be helpful (para. 155).
1. The Asia and Pacific region has made significant progress in reducing poverty and the Asian Development Bank (ADB) has been a major partner throughout this process. From 1990 to 2012, the estimated number of people living in poverty decreased by about 1.1 billion in East Asia, the Pacific, and South Asia combined. These regions accounted for about 80% of global poverty in 1990, but half the total in 2012 (Figure 1). The first Millennium Development Goal target—to cut the extreme poverty rate to half of its 1990 level by 2015—was achieved ahead of schedule largely due to progress in Asia.

2. This result largely reflects high economic growth. In Asia, where gross domestic products have been growing at a steady 4%-9% per annum, poverty ratios have spiraled down. The only exception was in the aftermath of the Asian financial crisis in 1997–1998, when the poverty ratio briefly rose above 30% (Figure 2).

3. However, the recovery from the 2008–2009 global economic crisis has been anemic across the world, and growth in emerging markets is slowing. In the past, a large share of the population in Asian countries been of working age and that has been a major factor in Asia’s economic success. However, an enormous transition caused by a sharp decline in fertility rates and rise in longevity will likely put a strain on economies,

---


2 In both Figures 1 and 2, “Asia and the Pacific” includes countries in East Asia and Pacific (developing only), Europe and Central Asia (developing only), and South Asia in the classification by the World Bank.
health care and pension systems in some countries. As a result, the urgency for countries to adapt to the new environment is growing.

4. International trade, which has significantly benefited Asia, has also suffered a major setback since the global financial and economic crisis in 2008. The volume of world merchandise exports slowed from a growth rate greater than 6%–8% per annum between 2005 and 2007 to less than 3% per annum between 2012 and 2014. In value terms, it averaged just 1% per year from 2012 to 2014 (Figure 3). In the meantime, the People’s Republic of China (PRC) and India have emerged as the defining factors in the regional and global economies. The region’s outlook is closely linked with the capacity of these two countries to address their social, environmental, political, and economic challenges.

5. The 2016 Annual Evaluation Review (AER) comes as ADB is preparing its new corporate strategy, Strategy 2030. Based on an analysis of the findings of recent evaluations, the report assesses the factors driving the results and performance of ADB operations. It also reviews efforts by ADB to achieve environmentally sustainable growth—one of the three strategic agendas of ADB’s current long-term strategic framework, Strategy 2020. This review complements the recent studies by Independent Evaluation on the other two Strategy 2020 strategic agendas—inclusive growth and regional integration—the findings of which are reflected in this report. In addition, by reviewing how ADB implements evaluation recommendations, the report examines possible ways to facilitate ADB’s efforts to incorporate evaluation findings in its operations effectively. Based on these analyses, this report draws out the main priorities for ADB to help achieve continued progress in Asia and the Pacific.

6. The report is in five chapters, with this first chapter outlining the features of today’s regional development context. Based on recent country, sector, thematic, and project evaluations, Chapter 2 discusses trends in the operations of projects and programs funded by ADB. Chapter 3—the special topic chapter for this report—summarizes the challenges and issues for environmentally sustainable growth in Asia and the Pacific, and highlights ADB activities that have responded to these needs. Chapter 4 provides a review of actions taken on recommendations and the pattern of acceptance and rejection of new recommendations. The final chapter builds on the

---

discussions in the earlier chapters and assesses what they tell us about the current state of ADB operations and possible future directions to improve the institution’s development effectiveness.

A. Major Challenges for Asia and the Pacific

7. As the tailwind from the surging global economy in the early 2000s wanes, the need for reforms to generate growth and improve productivity increases. The globalization of goods, services, and financial transactions has brought significant benefits to the region, and the thrust for further integration continues. Investments in highways, ports, and power grids will further facilitate the integration of the global supply chain. Regional initiatives such as the Association of Southeast Asian Nations (ASEAN) Economic Community, established in 2015, will enhance institutional integration across countries. Increasing internet penetration rates in the region are bringing services, ideas, and people closer, lowering market entry costs, and opening opportunities for innovative entrepreneurs to thrive.

8. However, countries are more vulnerable to the impact of external shocks. Close integration with global markets has created multiple channels through which the effects of volatility in capital flows, fluctuations in commodity prices, and regulatory failures in distant countries are quickly transmitted. A counter-trend of fragmentation spurred by geopolitical tensions between countries, a proliferation of bilateral trade agreements, lack of real commitment to regional integration, and resistance to a freer trade environment could also reverse the gains made. To protect income gains and productive physical and human capital investments, and to ensure the near-poor do not see their incomes again fall under the poverty line, countries will need to ensure that their economies are resilient to internal and external shocks. The economic literature points to strong income distributional consequences of economic shocks that, in turn, impose other negative externalities on long-term growth.\(^5\)

9. In Asia and the Pacific, building resilience must go beyond preventing economic contagion and must encompass the effects of poverty and natural hazards. External shocks—irrespective of their origin—tend to push near-poor households below the poverty line and the poor into deeper poverty. In Asia, the number of people vulnerable to poverty is much larger than those actually in poverty and the near-poor are often just one economic shock away from being pushed back into extreme poverty.\(^6\)

10. Among the most underestimated risks countries face is the fallout from long-standing social tensions, weak governance, and corruption that create a breeding ground for social unrest. The pockets of poverty caused by fragility, conflicts, and violence, even in otherwise prospering countries, are cases in point. The challenge is to ensure sustained support to enable these countries to build the systems and resilience needed to address their fragility and conflict risks. ADB needs to address not only countries on the fragile and conflict-affected situations (FCAS) list, but also those exhibiting some dimensions of fragility in parts of the country.

---


\(^6\) In East Asia and Pacific, the headcount for those in extreme poverty—below $1.90 per person per day in 2011 purchasing power parity (PPP) terms—is over 147 million, whereas those considered “vulnerable” (below $3.10) is 454 million. In South Asia, these numbers are 309 million and 899 million respectively. Data were taken from POVCALNET.
11. Countries in Asia and the Pacific are among those most prone to meteorological and geological events. Seven of the ten countries most affected by such events (based on the number of affected people from 1995 to 2015) are in Asia. The top ten high-disaster-risk countries according to WorldRiskIndex 2015 include seven countries in Asia and the Pacific, four of which are in the Pacific (Table 1). The region’s cities are among the world’s most vulnerable, with many informal settlements located in fragile environmental areas and along shorelines and major river basins. For example, Dhaka has an elevation of 2–13 meters, with most of the urbanized areas 6–8 meters above sea level. This makes large parts of the city highly vulnerable to a slight rise in sea level. In Bangladesh, a 1.5-meter rise would affect 17 million people and 22,000 square kilometers.7

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Affected People Between 1995 and 2015 (million)</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Republic of China</td>
<td>2,274</td>
<td>Vanuatu</td>
</tr>
<tr>
<td>India</td>
<td>805</td>
<td>Tonga</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>131</td>
<td>Philippines</td>
</tr>
<tr>
<td>Philippines</td>
<td>130</td>
<td>Guatemala</td>
</tr>
<tr>
<td>Thailand</td>
<td>76</td>
<td>Solomon Islands</td>
</tr>
<tr>
<td>Pakistan</td>
<td>55</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>Brazil</td>
<td>51</td>
<td>Costa Rica</td>
</tr>
<tr>
<td>Kenya</td>
<td>47</td>
<td>Cambodia</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>44</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>41</td>
<td>El Salvador</td>
</tr>
</tbody>
</table>


12. Underlying the threat of natural hazards is climate change, the impacts of which are becoming increasingly evident. Recent warnings by the United States National Oceanic and Atmospheric Administration and other climate monitors that the global temperature is already halfway to the 2°C Celsius warming threshold is a powerful testament that climate change is not an issue for the distant future. At the same time, disasters are becoming more frequent and more ferocious and the scale of devastation is increasing.8

13. Shifting weather patterns will seriously affect agricultural production and food security, while the region’s contributions to global greenhouse gas (GHG) emissions are growing. The carbon dioxide (CO2) emissions of the developing members of ADB have exceeded those of Organisation for Economic Co-operation and Development countries (Figure 4). Impacts of environmental degradation—air and water pollution, soil contamination, deforestation, and loss of biodiversity—are taking a toll on the quality of life for millions of people and on the sustainability of economic growth. The approval by the United Nations of the Sustainable Development Goals (SDGs), and the agreement at the 21st Conference of the Parties (COP21) of the United Nations Framework Convention on Climate Change provide a platform for international efforts

in these areas. Efforts by ADB to enhance environmentally sustainable growth are discussed in Chapter 3.

14. There is a growing recognition that a high level of inequality hurts growth, and, hence, countries cannot pursue any kind of growth but an inclusive one. Work by the International Monetary Fund shows that lower net inequality is associated with faster and more durable growth and that an inverse relationship between income share and economic growth exists. A 1 percentage point increase in income for the poorest share of the population is associated with 0.38 percentage point higher GDP growth in the subsequent 5 years, while a similar increase in the income of the wealthiest share of the population is associated with 0.08 percentage point lower GDP growth.9

15. In many countries in the Asia and Pacific region, the per capita consumption or income growth of the bottom 40% has kept pace with the per capita income growth of the total population. However, in India, Lao People’s Democratic Republic (PDR), People’s Republic of China (PRC), and Viet Nam, the consumption or income growth of the bottom 40% is slower than that of the total population (Figure 5).

16. In most of the large borrowers from ADB, the Gini index is rising, indicating faster income growth for the rich than for the poor (Figure 6).10

---


10 The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.
17. More broadly, ADB estimates that of the 28 countries in developing Asia with comparable data, 11—accounting for about 82% of population—experienced rising inequality of per capita expenditure or income, as measured by the Gini coefficient. In addition, non-income inequality in the form of unequal access to education, health, and basic services among different population groups classified by gender, location, and income exists in many countries. Technological change, globalization, and market-oriented reforms have had an impact on inequality through, in particular, increasing skill premiums and returns to human capital, falling labor income shares, and increasing spatial inequality. 11

18. Vulnerability to natural hazards, the impacts of environmental degradation, and the fallouts from inequality often converge in cities. Asia has 7 of 10 most populous cities of the world, but the pace of urbanization has not yet leveled off. The share of the urban population in Asia is projected to increase from 48% in 2014 to 64% by 2050 (Figure 7). 13 Further investments in sustainable transport, solid waste management, clean water supply, and sewage systems will be vital.

19. Finally, countries need to seek private sector solutions for development challenges to bring innovation and increase the sustainability of results. Some private sector and social entrepreneurs have pioneered new delivery models, such as mobile payment systems and microfinance, that generate value at the bottom of the income pyramid. Public–private partnerships offer a great opportunity that needs to be seized.

B. Changing Operating Environment of ADB

20. As the region tries to navigate its course amid shifting tides in the global environment, the ability of ADB to make valued and timely contributions is also being tested. A key feature underlying these challenges is that they are transboundary in nature and actions in multiple sectors amplify the impact. The development of effective solutions will require ADB to ensure it has a multidisciplinary understanding of the

---


causes and effects of the issues involved. Wide-ranging partnerships are essential to complement ADB’s skills and financing limitations.

21. The operating environment of ADB is also changing. Decades of success have resulted in many countries in Asia and the Pacific transitioning from low- to lower middle-income countries, and some to upper middle-income countries. The World Bank’s update of its country income group in July 2015 moved Bangladesh, Myanmar, and Tajikistan from low-income to lower middle-income countries, and Mongolia from a lower middle-income to an upper middle-income country. Several other lower middle-income countries can potentially reach upper middle-income status before 2020. Given their better access to international financial markets, they will be looking for more than financing in working with ADB.

22. In addition, several events that took place in 2015 will have significant impact on the operating environment for ADB. In particular, the establishment of new regional and global development finance institutions, the approval of the SDGs, and the Paris agreement on climate change will have a direct impact.

23. In this changing environment, ADB must identify niches where it has a dynamic comparative advantage. The areas of engagement in a country can change as its needs evolve. Past approaches have resulted in a rigidity that has prevented a timely response to shifting needs and this must be avoided in future. The next chapter discusses how ADB has been addressing the development challenges in the region based on the findings of recent country, sector, thematic, and project evaluations. It also seeks recurring themes and insights from these evaluations that could be used to improve the effectiveness of ADB operations.

CHAPTER 2

Performance of ADB Operations

24. ADB has made progress in achieving some of the key targets set in its Strategy 2020 by measures of how operations are labeled. A consistent 80% of its operations have been in the five operational core areas identified in Strategy 2020. In 2014, financing in these areas accounted for 88% of total financing. According to the evaluation of operations funded by the Asian Development Fund (ADF) X and XI, it has made progress in gender mainstreaming targets, reaching the 50% target in 2012 in ADF countries and a 59% 3-year rolling average for gender-themed or gender-mainstreamed projects in 2014. Operations classified as supporting regional cooperation and integration (RCI) have come close to the 30% target set for 2020, ranging between 18% and 27% in 2010–2014. This progress is reversible and should continue to be monitored and encouraged, but the institution is demonstrating that the directions proposed by Strategy 2020 have been assimilated and implemented.

25. This chapter reviews what recent evaluations say about the results and performance of ADB operations beyond the fulfillment of these targets. It tracks the results at different levels of interventions: country programs that define the operational framework for ADB to engage with countries; sovereign operations, which extend financing to governments and public sector entities; and nonsovereign operations, which extend direct financing to private sector projects. It also distills key messages from recent evaluations.

26. The chapter first focuses on country program performance, particularly on the common success features and shortcomings across these programs. The discussions are based on the findings of country partnership strategy final review validations (CPSFRVs) and country assistance program evaluations (CAPEs). The chapter then turns to individual operations, both sovereign and nonsovereign, based primarily on ex post evaluation and validation of completed activities. The evaluation studies and project validations that were undertaken in 2015 form the basis of the assessment in this chapter. Appendixes 1 and 2 provide a list of independent evaluation studies. Appendix 3 presents a summary of major studies in 2015.

15 The five core operational areas designated by Strategy 2020 are infrastructure, environment, regional cooperation and integration, finance sector development, and education.
A. ADB Country Programs

27. The country program, as defined in the country partnership strategy (CPS), is the main platform ADB uses to define its support along with those of the government, and other development partners. The CPS defines the parameters of ADB’s strategic and operational activities in the context of a country’s national development strategy and the ADB corporate strategic framework. The performance of country programs reflects not only the results of individual projects but also the effects of synergies and interactions among various interventions. Independent Evaluation examines ADB’s work and its results at the country level based on an assessment of its relevance to country’s needs as well as the effectiveness, efficiency, sustainability, and development impacts of the program.\(^{19}\)

28. The implementation of the ongoing CPS business process reform will be a priority for ADB in coming years, and lessons from evaluations can help ensure that the reforms lead to better country program results. According to CAPEs and CPSFRVs, country programs have met their stated objectives two out of three times since 2010—19 out of 28 reports rated the programs to be successful.

29. CPSFRVs assess the country programs in a given CPS period while CAPEs examine longer term periods covered by several CPSs. A review of CPSFRVs suggests that the more recent programs had higher ratings than those in earlier periods (Linked Document A). The share of CPSs rated highly successful or successful in CPSFRVs was higher for those approved between 2007 and 2012 than for those approved between 2000 and 2006 (Figure 8). By rating criterion, country programs consistently fare better for relevance and effectiveness than for efficiency and sustainability (Figure 9). Examining the factors influencing these ratings would help to reveal the strengths and challenges of ADB country programs, although caution is needed when interpreting these observations, given the limited number of CPSs covered.\(^{20}\)

\(^{19}\) Appendix 4 presents the country program evaluation approach. The evaluation of country program performance does not assess the country’s performance in achieving results. Rather it assesses ADB work and its results in a particular country.

The high rating for relevance suggests that the objectives of ADB country programs are appropriate to the key development challenges of the country. The recent CAPE and CPSFRV reports present a similar picture. The CPSs in these countries had stated objectives that were associated with some of the three key strategic outcomes: inclusive growth, environmentally sustainable growth, and improved economic efficiency (Table 2).

<table>
<thead>
<tr>
<th>Country (strategy period)</th>
<th>Key Strategy Outcomes</th>
<th>Key Strategy Outcomes</th>
<th>Key Strategy Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh (2012–2015)</td>
<td>Make the growth process more inclusive and greener</td>
<td>Objectives under inclusive growth also apply to environmentally sustainable growth</td>
<td></td>
</tr>
<tr>
<td>Indonesia (2012–2014)</td>
<td>Ensure inclusive growth by addressing policy and institutional constraints on growth</td>
<td>Foster environmental sustainability to reduce threats to natural resource management</td>
<td></td>
</tr>
<tr>
<td>Maldives (2007–2011)</td>
<td>Promote socially inclusive development</td>
<td>Support economic growth by promoting enhanced economic activities outside Malé</td>
<td></td>
</tr>
<tr>
<td>Myanmar (2012-2014)</td>
<td>Increase access and connectivity</td>
<td>Build human resources and capacity to manage the reform process; and promote an enabling economic environment</td>
<td></td>
</tr>
<tr>
<td>People’s Republic of China (2011–2015)</td>
<td>Promote inclusive growth through integrated rural and urban development in lagging areas</td>
<td>View all ADB support through an environmental lens to further green the portfolio, promote sustainable use of natural resources, and mainstream climate change</td>
<td>Continue catalyzing private participation</td>
</tr>
<tr>
<td>Timor-Leste (2011–2015)</td>
<td>Achieve inclusive economic growth by helping to sustain a high rate of economic growth and sharing economic opportunities across the population</td>
<td>Objectives under inclusive growth also apply to improved economic efficiency</td>
<td></td>
</tr>
</tbody>
</table>

Note: CPS = country partnership strategy.

These objectives are relevant to the challenges that these countries faced. For example, in the PRC, more than 500 million people have been lifted out of poverty since the 1980s, but the Gini coefficient increased from 0.32 in 1990 to 0.47 in 2014. In Indonesia, had inequality remained constant, the country’s poverty ratio in 2014 would have been 3.6% rather than 11.3%, indicating that 7.7 percentage points of poverty reduction have been forgone due to rising inequality. Timor-Leste needs to find ways to ensure long-term growth by diversifying its economy away from dependency on the oil sector as it expects to exhaust its oil reserves as early as 2021.

---

21 In 2015, Independent Evaluation produced a CAPE for the PRC and CPSFRV reports for Indonesia, Maldives, and Timor-Leste. The CPSFRV report for the Myanmar interim CPS was approved in February 2016 and that for the Bangladesh CPS in March 2016. Following the practice in past AERs, which have incorporated the analyses made available early in the year, this report is takes into account the Myanmar and Bangladesh validation reports in addition to the PRC CAPE and other CPSFRV reports published in 2015. The CAPE for Papua New Guinea was completed in 2015, but was covered in 2015 AER.


32. Addressing all facets of climate change is a growing priority for ADB country programs. IED undertook evaluations of two widely divergent programs recently: the ADB program in the PRC—the largest, most populous, and fastest growing country in developing Asia—and ADB’s support for the 10 smallest Pacific island countries. Both evaluations point to the urgency of addressing climate change.

33. These studies note that ADB can and must contribute to the global mitigation of climate change and improvement of environmental conditions. The ADB memorandum of understanding with the PRC government on environmental protection and climate change provides a basis for continued cooperation in these areas. The continued relevance of ADB in Pacific small island countries will depend on its response to climate change given the countries’ high levels of exposure to sea level rise and extreme events, their susceptibility to damage from those events, and their limited adaptive capacity. For this, focusing on climate change and disaster risk management during project preparation is key, but the Pacific evaluation notes that results across projects vary and that this is often caused by limited capacity. The December 2015 agreement at the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris adds further urgency to the need to operationalize this priority more generally across countries.

34. Responding in a timely way to rapidly changing country needs was a challenge for some country programs and some programs had to be adjusted significantly. Where the adjustment responds to an unexpected shock, it is a plus; but when it reflects weak anticipation, it is a minus. In Indonesia, the total actual program lending was 105% of the planned amount during CPS implementation, compared with 41% for actual project lending. Support for climate change policy reform, a geothermal power project, new flood management, irrigation, regional roads, and public–private partnership was planned but needed to be dropped following this adjustment. The Bangladesh country program went through retitling and re-scoping of planned projects.

35. These adjustments indicate the importance of diagnostic assessments in capturing country-specific constraints and identifying appropriate program priorities. Sustained dialogue with country counterparts and strong analytical work on major country challenges are vital to ensure that the country program identifies and addresses the most relevant issues in a timely way. It is also important to maintain a robust knowledge base on major development challenges not covered during the formulation of the CPS to prepare for unanticipated changes in country needs.

36. Some of the actions envisaged in the CPS reform should be able to address this issue. The reform aims to give country teams greater flexibility in developing content to match the country’s evolving needs and present an integrated and thematic description of ADB engagement in the country rather than restricting itself to sector-based interventions. Country teams will need to conduct knowledge and assessment work throughout the CPS implementation period.25

37. A high proportion of country programs receive positive marks for their effectiveness. For example, public sector management operations in Maldives are assessed to be very effective in consolidating fiscal revenues bolstered by support for a stronger and more robust taxation system. The loan projects in PRC were effective in

---

developing significant environmental benefits, and in reducing pollution and GHG emissions.

38. However, the small number of completed projects and the limited availability of good data often hamper assessments of the effectiveness of country programs, which are based on the results of the completed country portfolio, and the achievement of outcomes in the CPS results framework. Making definitive assessments of the results of the completed portfolio is seldom achieved either because of the low proportion of completed projects (given that project implementation life is typically longer than the CPS period), or because of the quality of indicators and targets used in the CPS results framework. For example, 51% of the total programmed portfolio in Timor-Leste had been approved and none of the implemented projects had been completed at the time of the preparation of the CPS final review.

39. The Indonesia country portfolio is also a case in point. Completed, rated, and validated projects in the CPS period accounted for 22% of the portfolio. Assessments of the remaining unrated projects suffered from the limited availability of monitoring and reporting documents for these projects. The PRC CAPE notes there was no comprehensive information base to monitor progress in meeting outcomes and outputs for ongoing projects. While ADB has a project performance management system and e-Operations in place, regular updating of information hinges on the diligence of responsible units.

40. Meanwhile, delays in project implementation can undermine program outcomes as such delays impose additional costs on the country and reduce the benefits of the project. In an estimate undertaken for projects in Viet Nam, project delays resulted in an additional 6% of project costs and 11% of benefits for each year a project was delayed.26 Issues relating to government capacity and familiarity with ADB procurement and contract procedures, and limited delegation of responsibilities to ADB resident missions accounted for the start-up and implementation delays.

41. To help avoid start-up delays, efforts are being made to bridge differences between ADB and country systems in land acquisition and resettlement, and improve the capacity of governments to comply with ADB standards to minimize social and environmental costs. The impacts of these efforts have yet to become visible. In Indonesia, ADB, alongside the World Bank, supported dialogue with the government on the adoption of the Land Acquisition Act in 2012 to give more rights of compensation to non-titleholders. Moreover, to facilitate the process related to environmental and social safeguards, ADB has provided technical assistance to help government ministries harmonize country safeguard systems with those of development partners. So far, only Indonesia has requested the use of its country system in ADB-supported projects. It is too early to determine whether this harmonization has helped improve the efficiency of project implementation.27

42. Further analysis on the delegation of responsibilities to some resident missions may help to address delays, cost overruns, reduction of project coverage, and cancellations, all of which negatively affect the efficiency rating. The Indonesia resident mission has assumed a crucial role in project implementation: by 2014, 100% of loans and some 70% of technical assistance activities had been delegated to the resident mission. Where there was delegation of responsibilities for projects facing

implementation difficulties, it has resulted in improved communications between ADB and the government, as well as more timely responses on project implementation issues.\textsuperscript{28}

43. In Myanmar, TA project supervision from ADB headquarters was found to be difficult because of the distance and poor communication infrastructure in some government departments. Both the government and ADB experienced difficulty staying abreast of and responding to various issues related to project implementation. Beginning in 2014, responsibility for supervision was shifted to the resident mission.\textsuperscript{29} In Timor-Leste, ADB is expanding the implementation capacity of the resident mission. With the goal of improving implementation efficiency, additional staff have been assigned to prepare economic analyses and oversee implementation of road and water and sanitation projects.

44. Regarding sustainability, weak operations and maintenance arrangements often hamper the likelihood that program results will last over the long run. Operation maintenance funds and associated institutional arrangements are particularly critical. However, these systems are not always in position and governments are rarely keen to raise tariffs. In the Maldives’ water transport subsector, uncertainties in the financial viability of infrastructure investments, the complex management structure, and the lack of an asset management and maintenance strategy hindered the achievement of sector results and sustainability. In Timor-Leste, ADB has sought to incorporate funds for 2-year post-construction maintenance into all road upgrading contracts. In the PRC, provincial and municipal governments are required to allocate financing for the operations and maintenance of some projects in the agriculture and natural resource sector through covenants and project agreements. Meanwhile, periodic tariff adjustments are sought in most urban development projects to allow for full cost recovery. Sector-wide policies to provide operations and maintenance services and generate revenues when possible will be an important part of the solution over the medium term.

B. Sovereign Operations

45. This section highlights trends in the performance of ADB-financed operations identified by IED’s project evaluations and validations. Like AER 2015, it presents average ratings of groups of projects in non-overlapping 3-year sets. However, 3-year moving averages are also used to complement the analysis. This section emphasizes only those changes that are statistically significant rather than describing marginal changes in the ratings. Linked Document B presents sovereign operations’ success rates. Linked Document C presents a statistical approach to the performance of ADB-financed operations.

1. Project Success Rate has Improved in Recent Years

46. The share of ADB-financed projects rated \textit{successful} or \textit{highly successful} has increased. These ratings are based on the relevance of the project to development issues, its effectiveness and efficiency in achieving project outcomes and outputs, and the likely sustainability of results (see Appendix 4 for the project evaluation and validation approach to sovereign operations). A 3-year moving average of the projects

rated successful or highly successful for PCR reporting years 2013–2015 (from 1 July 2012 to 30 June 2015) was 72%, which is above the levels in the periods 2010–2012 and 2007–2009 (Figure 10). The change is statistically significant at the 5% significance level. The improvement is common across all four core evaluation criteria, particularly in the effectiveness rating (Figure 11).

47. The same upward trend is not evident in the longer-term data. The time series of 3-year moving averages since 2000—the year when the current validation method based on the four core criteria was established—indicates that the recent improvement is a recovery from the gradual deterioration that happened between the 2002 and 2010 PCR reporting years (Figure 12). The previous peak in the single-year success rate was 78% in 2002 and the trough was 41% in 2010. The success rate in 2014 was 78%, reaching the previous peak for the first time in 12 years. The 3-year moving average based on project approval year shows a similar trend, with the previous peak being for projects approved in 1996 and the trough being in 2000 (Figure 13).

---

30 In 2000, overall project performance began to be assessed based on the four core evaluation criteria. The four core criteria have been assigned weights that have evolved over the years. At present, the weighting for each criterion is set at 25%.
48. To maintain a sound success rate and avoid a downturn, a strong emphasis on outcomes is essential. The actions set out in the midterm review of Strategy 2020 are essential, particularly as the success rate in 2015 dropped by 12 percentage points from the level in 2014, which may be a yearly fluctuation or the start of a deterioration. The evaluation of ADF X and XI operations found that greater attention to project design and anticipation of common implementation challenges both contribute to better outcome ratings.

49. More systematic analysis of the relationship between quality at entry and the overall rating of ADB-supported projects has not been done, partly because the quality at entry data are limited. The assessment for sample projects started in 2006 and is conducted on a biennial basis. Therefore, not many projects in the sample have been completed and had the overall rating assigned. In addition, the results of previous quality at entry assessments show an extremely high satisfactory rate, which raises doubts about their capacity to predict the variance in project performance at completion. Nevertheless, a high average relevance rate, which includes the assessment of project design, is encouraging. The effort to strengthen the quality of project preparation must continue and be enhanced. Strong upstream sector and thematic work to understand the underlying development problems often helps sharpen the focus on project design, leading to a higher rating on project relevance.

2. Staff Quality, Timing, and Managerial Attention Help Improve Project Ratings

50. Empirical analyses to identify the determinants of successful development projects have shown that the quality of the project officer plays a key role. Several analyses using the database of project evaluation ratings have been undertaken. Denizer, Kaufmann, and Kraay (2013) investigated the macro and micro correlates of World Bank project outcomes using data from over 6,000 World Bank–financed projects. Bulman, Kolkma, and Kraay (2015) extended the analysis to include data for projects financed by

---

32 ADB conducted the fifth biennial quality-at-entry assessment in 2014 when it evaluated a sample of country programs and operations approved during 2012–2013. All the CPSs reviewed had satisfactory ratings, as in the two previous 2-year reporting periods. As for projects, 95% of sovereign projects and 94% of nonsovereign projects were rated satisfactory or highly satisfactory (ADB. 2015. 2014 Development Effectiveness Review. Manila).
ADB. These analyses show that country growth and the policy environment are significantly and positively correlated with the project outcome rating, but that most of the variance in project outcome ratings comes from project-specific variables, of which the track record of the project officer in delivering successful projects is highly significantly correlated with the project outcome rating. There are few significant differences between the projects financed by ADB and the World Bank in the relationship between these variables and project outcome ratings.\(^{34}\)

51. Practically all evaluations conducted in the past two years corrobore the value of adequate and high-quality staff resources.\(^{35}\) This is not a surprising finding, yet it is an important one in light of effort to ensure the successful implementation of new corporate priorities under Strategy 2030. Across a wide spectrum of areas ranging from strengthening of project design and supervision; implementation of the Governance and Anticorruption Action Plan II; engagement in FCAS; increasing the focus of regional operations; or raising the knowledge content of ADB operations, evaluations call for more and better staff resources. Ensuring recruitment, development, and retention of high-quality staff resources are among the highest priorities in increasing project success rates. Staff must be provided with appropriate direction and incentives for collaboration across the organization to address cross-sector and cross-country challenges. Corporate directions need to be supported by adequate staffing with appropriate expertise. A medium-term plan for staffing and skill mix that is aligned with the new priorities must accompany efforts to develop Strategy 2030.

52. In addition, a regression analysis conducted for this report indicates that the timing of project approval may matter. Projects approved during the last two months of the year, when a high concentration of project and program approval often occurs, have a generally lower chance of receiving a positive rating at completion than those approved in the first 10 months of the year. After controlling for country- and project-specific features, the analysis shows that projects approved in November and December are 10 percentage point less successful than those approved in earlier months.

\[\text{Figure 14: Success Rates by Date of Project Approval (3-year moving average)}\]

\[\text{Source: Asian Development Bank Independent Evaluation Department.}\]


\(^{35}\) For example, the evaluation of Asian Development Fund X and XI operations (2015) pointed out the need to enhance staff capacity for disaster risk management and fragile and conflict-affected situations. The CAPE for the PRC (2015) notes the need for sufficient expertise to manage a knowledge-intensive and highly innovative portfolio. The evaluation of ADB support for enhancing governance in its public sector operations suggests effective staffing is one of the factors that will enable ADB to support governance as a true driver of change. The evaluation of ADB support to small Pacific island countries recommends increased staffing to address fragility and capacity limitation in these countries.
points less likely to be rated successful or better at completion (Figure 14)—see Linked Document D for the details of the regression analysis.

53. This finding is consistent with the assessment made in AER 2005, which noted a statistically significant relationship at the 5% level for projects approved in the 1990s: projects approved in the second and third quarters were more likely to be successful than those approved in the first and fourth quarters. To reduce the concentration of approvals at the end of the year, ADB has been making efforts to complete the bulk of loan processing by June. It has also enhanced efforts to increase project readiness. Given that the analysis uses the data of completed and rated projects, the effects of these efforts are not reflected. The mechanisms that link the success rate and approval at year-end merit further examination.

54. The review of the success rates of projects with environmental safeguard categories shows that those with the highest potential environmental impacts perform best. Projects are labeled Category A when they are likely to have significant adverse environmental impacts, which may affect an area larger than the sites or facilities subject to physical works. These projects require an environmental impact assessment and an environmental management plan, as well as an elaborate process of consultation and coordination, bringing higher levels of complexity and risk. Despite these added challenges, the success rate of these projects is higher than those of projects with more limited (Category B) and minimal or no potential environmental impacts (Category C, Table 3).

55. A similar finding was reported for cofinancing and regional cooperation projects. Projects that require stronger coordination with development partners through cofinancing or enhanced cooperation among countries to achieve regional objectives can become highly complex in design and implementation. Cofinanced projects typically have longer project duration. Given those factors, they could be expected to perform more poorly.

56. However, cofinanced projects and RCI projects were found to have higher success rates than the ADB average. In all these cases—environmental category A, cofinanced, and regional cooperation projects—the project preparation and supervision process typically involves more efforts to address high environmental risks and to coordinate with development partners. Such projects point to the value of additional scrutiny by development partners or governments, and the managerial oversight

### Table 3: Success Rates by Environmental Safeguard Category

<table>
<thead>
<tr>
<th>Category</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Projects Rated</td>
<td>64</td>
<td>263</td>
<td>166</td>
</tr>
<tr>
<td>Success Rate</td>
<td>84%</td>
<td>62%</td>
<td>57%</td>
</tr>
</tbody>
</table>


Cofinanced projects and RCI projects were found to have higher success rates than the ADB average.

---

37 Possible areas for further examination are qualitative analyses of the characteristics of projects that are approved late during the year and refined regression analyses using additional variables.
38 The average success rate of Category A projects is higher than that of Category C projects, but the difference in their effects on probability of success is statistically different from zero at the 10% significance level. The difference between the success rates of Category A and B projects is not significant at 10% level, but the direction of the sign is the same (Category A projects have higher success rate than Category B, Linked Document D for details).
associated with the due diligence process, even as these make operations more intense. Making a candid assessment of project results at completion is also a key part of project management. To encourage this, Independent Evaluation has recognized high-quality analyses of the results of sovereign and nonsovereign operations. In addition, awards have been given to projects with a likelihood of sustaining results and achieving success (Box 1).

### Box 1: 2015 Independent Evaluation Awards

Independent Evaluation presented awards in September 2015 for: (i) high-quality self-evaluation reports; (ii) projects that demonstrate sustainability; and (iii) project with exemplary performance. The awardees were chosen from 79 project completion reports (PCRs) and 26 extended annual review reports (XARRs) that were validated in 2014.

#### A. Best PCR and XARR Awards

1. **Assam Governance and Public Resource Management Sector Development Program (India)**. This PCR was recognized for its candor and good use of data in discussing contrasting design and implementation issues to support the ratings. Its lessons highlighted key factors for a good policy reform support intervention.

2. **Community Water Services and Health Project (Indonesia)**. This PCR presented a clear and consistent discussion of a challenging decentralization project that covered thousands of communities in Indonesia. It presented a detailed account of what worked and what did not, and identified useful lessons.

3. **Health Care in the Central Highlands Project (Viet Nam)**. This PCR presented robust analysis and solid evidence to support the ratings and derive lessons. The economic analysis, based on three rounds of the Viet Nam Household Living Standards Survey, was particularly noteworthy.

4. **Tangguh Liquefied Natural Gas Project (Indonesia)**. This XARR went to great lengths to analyze the project's contribution to gas sector and private sector development. The XARR was logically consistent and the lessons provided were thoughtful and useful for similar energy investments.

#### B. Sustainable Project Awards

1. **Tranche 1 and 2 of the Guangdong Energy Efficiency and Environment Improvement Investment Program (People's Republic of China)**. This pilot project supported an innovative financing modality to promote efficient energy consumption. The model has been implemented in two other provinces with potential for further replication.

2. **Local Government Financing and Budget Reform Program Cluster (Philippines)**. This program cluster strengthened local governments' financial capacities and performance in service delivery. The program has helped sustain the government initiatives in decentralization and its successful implementation led to a follow-on cluster program.

#### C. Highly Successful Project Award

**Roshan Cellular Telecommunications Project (Afghanistan)**. ADB’s successful support to private sector company Roshan catalyzed further investment and competition in a difficult business environment. The company’s client base increased by 30 times in 7 years.


#### 3. Non-Infrastructure Projects Perform as Well as Infrastructure Projects

57. With regard to the sector composition of projects rated successful or highly successful, a significant improvement has taken place in non-infrastructure sector operations, particularly in education and public sector management (Figure 15).
58. Infrastructure sectors, defined as operations in energy, transport, information and communication technology, and water and other urban infrastructure and services, have been the main thrust of ADB operations in commitment amounts and allocated resources. However, the regression analysis (Linked Document D) shows that operations in these sectors do not yield significantly higher success rates than projects in other sectors. Moreover, for the 2013–2015 PCR reporting years, the non-infrastructure sectors improved their success rate by 19 percentage points, overtaking that of infrastructure sector operations (Figure 15). The 39 percentage point improvement in education sector operations and 27 percentage point improvement in public sector management operations were statistically significant at the 5% and 10% significance levels respectively. The decline in the transport sector rating is not statistically significant, but, given its importance in the ADB portfolio, there is a need to continue monitoring its performance in coming years (Figure 16).

59. A number of successful projects were behind the improvement in the performance of education sector operations. These projects supported technical and vocational training that offered targeted skills linked to employment; better education planning and management; improved affordability, quality, and availability of teaching and learning materials; and systemic improvements for design, delivery, and

---

41 The performance of education sector operations was found to be significantly better than that of infrastructure sector operations (Linked Document D).

42 The sector categories used here are based on the new ADB project classification system (PCS). The PCS reclassified sector and subsector titles of ADB operations to ensure historical consistency and strengthen alignment with the Strategy 2020. For AER 2016, analyses of sector performance were based on sectors reclassified for the period 2007–2015. The improvement in industry and trade sector operations was also statistically significant at the 5% significance level, but the number of projects reviewed in 2013–2015 PCR reporting periods was small. Five projects were reviewed, all of which were assessed to be successful.
management of teacher development for upper secondary and professional secondary education. Some of these successful projects demonstrated innovations, for example, the use of sector-wide approaches, block grants in operations and maintenance, community-based training and school-improvement, and information and communication technology to improve teaching and learning environment. Strong gender dimensions in project designs had a positive impact on reducing gender imbalances in basic education in Lao PDR, secondary education in Mongolia and Viet Nam (footnotes 46 and 47), and technical and vocational training in Nepal.

60. The significant improvement in public sector management operations is also an encouraging sign given the growing need to strengthen institutions and governance in Asia and the Pacific. Improved performance was driven by public expenditure and fiscal management and decentralization projects. Demand-driven facilitation of reforms ensured government ownership and alignment of ADB and other development partners’ support for various initiatives. This ensured continuity of fiscal management policies in Tuvalu, increased public participation in local governance processes in Nepal, and improved tax administration in the Kyrgyz Republic. The use of country systems in Solomon Islands has reduced the transaction costs of economic and financial reforms for the government and its development partners. The program cluster approach has been instrumental in implementing gradual reforms and successfully achieving results in reform areas in Assam, India; Philippines; and Viet Nam.

61. Success stories in the past have highlighted the need to align political interests and technical solutions to improve public sector effectiveness and governance. The political recognition of a problem and the will to address it need to coincide. High-quality technical support needs to be available for diagnosis and to deliver an effective solution. Given that governance challenges tend to linger, sustained efforts are needed. Sometimes a crisis or disruptive event triggers reform, but the cost of adjustments during such an event is likely to be extremely high. If ADB is to be ready with helpful support when the political recognition of the need for action emerges, it needs to carry out analysis and institutional assessments based on a strong understanding of political factors and constraints. ADB’s knowledge of public sector management issues needs to be regularly updated and can be used to form a baseline assessment for a CPS that is conscious of the opportunities and limitations in the context of the overall governance environment.

62. This improvement in the success rate of public sector management operations has narrowed the performance gap between project and program operations. Of the 20 public sector management projects rated successful or highly successful, 15 were policy-based loans. In the past, program loans have typically performed much worse

43 IED. 2014. Validation Report: Second Primary Education Development Program in Bangladesh. Manila: ADB.
than project loans. However, in 2013–2015, program success rates were only 5 percentage points below those of projects (Figure 17).

63. ADB has had success in supporting various reforms to improve institutions and enhance legal and regulatory frameworks through the use of program loans. In Viet Nam, policy-based lending accounted for up to 25% of the approvals for the CPS period 2012–2015, amounting to $880.2 million. These loans have helped to improve policy and institutional frameworks, for instance, to increase the number and registered capital of private companies. In Indonesia, ADB established the 2012 precautionary financing facility, which helped improve confidence in the economy of Indonesia at a time of sluggish exports and turbulence in international markets. The government of the PRC had not accepted policy-based loans until the Beijing–Tianjin–Hebei Air Quality Improvement–Hebei Policy Reforms Program approved in December 2015. This operation illustrates the evolution of the ADB and PRC relationship in that ADB is finally invited to work with the authorities on policy issues on the basis of lending operations.

64. Flexibility and timely support are advantages for policy-based loans, but weak links observed between financing and outputs call for careful upstream assessment, dialogue with country counterparts, and monitoring. The reform program that the loan supports needs to be robust and substantive to justify a quick disbursement of often substantial amounts of financing. As the accurate costing of reforms is difficult, policy-based lending is vulnerable to pressure for disbursement. A similar challenge exists for results-based lending, which disburses a certain amount of loans against the achievement of predetermined indicators. By setting these indicators at substantive but also realistic level, this can be a significant motivation for progress. However, if it sets indicators that are too easy to achieve, a loan will make little or no contribution to generating results that would not have been achieved otherwise.

65. Policy-based and results-based loans need to strike a balance between ambitious targets and feasibility; to do that, a careful assessment is needed of the reform environment and readiness. Continuous dialogue during and after the program period is also needed to help sustain results and inform the next steps for aiding further reform as needed.

66. Some ADB operations to strengthen public sector management are closely linked with efforts to support FCAS countries. The majority of the FCAS countries are in the Pacific—10 out of 11 since 2009—and because governance is often a problem in

---

51 The regression analysis of projects rated by Independent Evaluation from 2000 onward undertaken for this study shows that overall the performance of project loans is significantly better than that of program loans (5% significance level). See Linked Document D.
54 IED. 2009. ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity. Manila: ADB. Lessons extracted from EVIS.
these countries, public sector management operations have grown to dominate ADB interventions in the 10 smaller Pacific countries, particularly FCAS countries.55

67. However, the FCAS should not be seen only as a country-based concept. Focusing on countries categorized as FCAS can underestimate the extent of the conflicts affecting many Asian countries. In ADB member countries, 85 million people live in FCAS countries, with another 36 million in transitional countries that have recently moved out of the FCAS list. However, this is less than half the number of people who live in subnational FCAS. Recent evidence shows that subnational conflicts are endemic and concentrated heavily in such countries.56

68. ADB can build on the lessons from operating in the conflict-affected situations in non-FCAS countries. The experience of supporting community development in Sri Lanka points to the value of a participatory approach in designing and implementing the interventions.57 In Pakistan, ADB supported a Post-Conflict Needs Assessment for Khyber Pakhtunkhwa and Federally Administered Tribal Areas, which offered useful insights on the dynamics of poverty, governance, institutional history, conflicts, and violence.58

69. Former conflict-affected countries also need support to overcome the underlying drivers of fragility that are often rooted in institutions and history. As in other governance reform support, sustained engagement is vital. Other international financial institutions, such as the World Bank, have addressed the persistence of fragility drivers by introducing exceptional allocations for prolonged support for turnaround situations in post-conflict and reengaging countries.59 Establishing a mechanism for engagements, assessments, and dialogue for an extended period would enable ADB to continue to ensure it makes substantive contributions in this area.

70. A review of success rates by country income groups shows that projects in upper middle-income countries and in East Asia have performed well—the clear link between the two is the PRC. Although projects in South Asia had the largest share of projects rated successful or highly successful (Figure 18), all validated projects in the East Asia region were rated highly successful or successful during the 2013-2015 PCR year (Figure 19).

---

71. The success rate of upper middle-income country projects in 2013–2015 (91%) is significantly higher than that in lower middle-income and low-income country projects. It is also a significant improvement on its success rate in 2010–2012 (Figure 20). In all three reporting periods, projects in PRC consistently led those in other countries with the highest proportion of positive ratings in its portfolio. Out of 58 projects reviewed by IED since 2000, all but 2 were rated successful or highly successful. Without the PRC portfolio, the success rate would have been 4 percentage points lower at 68% for the 2013–2015 PCR period.

72. Evaluations, including the PRC CAPE, and the evaluation information system—a database of evaluation lessons compiled by Independent Evaluation—point to a number of macro and micro factors behind this result. The key project-level factors are: strong government commitment and ownership, timely availability of funds, close monitoring of project performance and progress, good coordination among different organs and agencies of government, and keen participation in knowledge management activities supported by the technical assistance. These factors were supported by macro policies that focused on infrastructure development, promoting an open economy, improving economic governance, and ensuring a greater role for the private sector.

---

H5 = highly successful, S = successful, LS = less than successful, US = unsuccessful.
* Sovereign operation in Asia and the Pacific

---

71 The success rate of upper middle-income country projects in 2013–2015 (91%) is significantly higher than that in lower middle-income and low-income country projects. It is also a significant improvement on its success rate in 2010–2012 (Figure 20). In all three reporting periods, projects in PRC consistently led those in other countries with the highest proportion of positive ratings in its portfolio. Out of 58 projects reviewed by IED since 2000, all but 2 were rated successful or highly successful. Without the PRC portfolio, the success rate would have been 4 percentage points lower at 68% for the 2013–2015 PCR period.

72. Evaluations, including the PRC CAPE, and the evaluation information system—a database of evaluation lessons compiled by Independent Evaluation—point to a number of macro and micro factors behind this result. The key project-level factors are: strong government commitment and ownership, timely availability of funds, close monitoring of project performance and progress, good coordination among different organs and agencies of government, and keen participation in knowledge management activities supported by the technical assistance. These factors were supported by macro policies that focused on infrastructure development, promoting an open economy, improving economic governance, and ensuring a greater role for the private sector.

---

60 The evaluation information system is accessible at: lessons.adb.org.
C. Nonsovereign Operations

73. High demand for private sector investment in Asia and robust growth in new approvals have made nonsovereign operations key determinants of success if ADB is to meet its strategic goals. The private sector development agenda of Strategy 2020 aims for ADB to expand its work with the private sector and to act as a catalyst for investments that support inclusive growth and improve the environment. Nonsovereign operations are to play a major role in these efforts. They are also going to be one of the key thrusts of the operational expansion planned following the combination of the lending operations of the ADF with the ordinary capital resources (OCR) balance sheet.

74. The recent growth in nonsovereign operations (Figure 21) is a result of efforts by ADB to expand the volume of its portfolio. An increasing share of budgetary and staff resources allocated to the Private Sector Operations Department (PSOD) not only demonstrates the strong commitment of ADB to private sector operations but also underscores the fact that nonsovereign operations are increasingly central to ADB achieving its mission (Figure 22). The discussion in this section is based on the findings of thematic and corporate evaluation studies published in the past 2 years, 22 project performance evaluation reports (PPERs) and 72 validation reports of extended annual review reports (XARR) completed from 2006 to 2015.61

1. Nonsovereign Project Performance is Improving

75. In recently evaluated country programs, nonsovereign operations have helped to advance development goals. In the PRC, they helped develop financial structures to finance multiple small public–private partnership projects; enhance corporate governance and safeguard practices; and promote environmental sustainability, local currency financing, direct value-added cofinancing, and other financing mechanisms.62

---

61 Assessments of nonsovereign projects reviewed development outcomes, the relevance of the project from historical and current perspectives, and whether it achieved what it set out to do. Ratings are based on development results, ADB additionality, ADB investment profitability, and ADB work quality.

62 B loans are funded by commercial banks and other eligible financial institutions, with ADB acting as lender of record. Although B loans do not provide co-financiers with recourse to ADB for debt service, such loans enjoy the same privileges and immunities as direct loans by ADB.
They have also contributed to banking sector reforms.63 In Papua New Guinea, ADB helped significantly expand mobile service coverage and increase affordability.64

76. These examples have helped to improve the success rate of nonsovereign operations in recent years. A total of 94 nonsovereign projects have been evaluated or validated by IED since 2006. They represent 66% of the 143 projects approved from 1994 to 2010 that are subject to independent evaluation or validation.65 Based on XARR completion year, an improvement in 3-year moving average success rates can be seen between the last two non-overlapping 3-year batches: 52% in 2010–2012 and 67% in 2013–2015 (Figure 23). By project approval year, success rates improved from 62% for projects approved in 2005–2007 to 82% for those approved in 2008–2010 (Figure 24). The success rate for all 94 independently reviewed projects is 65%.

77. Infrastructure projects are the main component of this upward trend. Almost all the infrastructure projects were rated successful or highly successful. Successful projects had clear and realistic development objectives and well-defined outputs and outcomes. Of those evaluated, 23 were in the energy sector, 22 of which were rated successful or highly successful. All three telecommunications projects were rated highly successful. The three companies that ADB supported became industry leaders, were all highly profitable, created jobs, and were the largest taxpayers in two of the three project countries. Geographic and population coverage exceeded the targets, promoting inclusive growth as previously unserved areas and unconnected people gained access to telecommunications services.

78. Projects in Group B countries (countries eligible to borrow from both the ADF and OCR) performed well (Figure 25) because they had a higher concentration of infrastructure projects.66 Of the 49 projects, 23 (47%) were infrastructure-related and 22 of these were successful or highly successful. For Group A countries (ADF only),

---

65 A total of 218 nonsovereign operation projects were approved from 1994 to 2010 but 75 of these are not subject to independent evaluation: 45 were cancelled; 19 had data issues that would have made the evaluation very difficult to undertake; 8 were already evaluated using the old criteria; and 3 were investments in the Asian Finance and Investment Corporation.
66 This section uses the country group classifications that were in place when the projects were approved. This is more appropriate because it reflects the country conditions at the time the projects were conceptualized.
infrastructure projects were 30% of the reviewed projects; the share was 26% for Group C countries (OCR only).

79. ADB added value in these projects that went beyond the direct financial support it supplied. ADB provided comfort to other financiers and contributed to the design and functioning of projects. For example, in a power project in Pakistan, ADB provided support at a time when there had been no international investments by independent power producers in the country for 7 years. In an airport project in Armenia, ADB financing helped ensure timely completion of the project despite the impact of the global financial crisis. The additionality of ADB was rated excellent in 17 of the 32 infrastructure projects that were evaluated and satisfactory in 14 others.

80. The 2008 global financial crisis affected the performance of some financial market operations negatively. For example, ADB provided a loan to a leasing company to help expand its lease operations to small and medium-sized enterprises, but the financial crisis severely curtailed the intended operations and forced the company to shift its focus to consumer finance and lifestyle-oriented leasing. Five banking systems projects in Kazakhstan and three small and medium-sized enterprise finance projects in Azerbaijan were rated less than successful because of the negative effect of the financial crisis.

81. Nevertheless, it also needs to be noted that less than satisfactory ADB front-end work, particularly in selecting the participating banks, contributed to this result. Some of these banks had poor asset quality, loans that were overconcentrated in certain sectors and companies, and inexperienced management teams. The low success rate and poor ADB investment profitability ratings for private equity fund investments (36% overall) were caused by low business success and ADB investment profitability ratings in 18 of the 25 private equity funds.

2. Operational Expansion Can Be Inclusive

82. The recent stronger showing of nonsovereign operations is reassuring as ADB gears up to expand nonsovereign operations. Two issues can help enhance the contributions of these operations to ADB’s corporate priorities. First, identifying projects ready for private sector investments has proved a major challenge. In Pacific countries, despite efforts to maintain dialogue with private sector institutions and to undertake due diligence, developing nonsovereign investment projects has been difficult because of high country risk and the low risk-adjusted returns associated with these investments (footnote 55).

83. There is also a more general lack of viable investment opportunities. During 2009–2014, ADF countries accounted for 31% of total private sector operations approvals, below the target of 40% by 2015. In the PRC, limited staff resources are spread thinly over a continuously growing portfolio, which could result in forgone
opportunities in new sectors. The anticipated potential for public–private partnerships in Indonesia has yet to result in viable projects for ADB to support.67

84. Second, if ADB is to pursue inclusive growth in its operational expansion, it needs to invest in more projects that promote inclusive growth and to maintain the share of such projects.68 Some are concerned that the pursuit of greater inclusiveness would pull down the investment profitability of nonsovereign operations.69 However, the evaluations of 94 nonsovereign projects by IED since 2006 suggest that development results and investment profitability are not incompatible (Figure 26).

85. Two recent evaluations also indicate that there has been a closer alignment of nonsovereign operations and the inclusive growth and environmentally sustainable growth agendas. According to the evaluation of ADF X and XI operations, the percentage of private sector operations approved in ADF countries that aimed to promote inclusion through a specific focus on poor communities, rural populations, and women increased from 6% in 2009 to 37% in 2014 (footnote 59).

86. ADB has recently increased its efforts to track inclusive business projects. In 2015, it decided to include reporting of the number of approved inclusive businesses in the corporate results framework. Of the projects approved in 2014, six (24% of the total number approved in the year) were inclusive business projects. In 2015, there were seven projects (26% of the total number approved in the year) which PSOD considers as inclusive business.70 These projects support wastewater treatment, rural education, financial inclusion, microfinance, connectivity infrastructure, off-grid solar power, and agricultural value chain development. As this tracking process has only covered two years, it is not yet possible to conduct trend analysis. If ADB is to

---

68 According to PSOD, its transactions address inclusive economic growth through two main channels. The overwhelming majority of transactions invest in areas that are a demonstrated constraint on inclusive growth and that benefit people at the bottom of the pyramid. More than 80% of the PSOD portfolio is composed of transactions that provide infrastructure and financial services with a special focus on energy and micro, small and medium-sized enterprise lending as well as rural financial inclusion. The World Bank Enterprise Surveys, have shown that these are areas identified by local businesses as the principal constraints on growth and employment generation. In addition, PSOD supports inclusive business transactions that work with businesses that provide goods and services to the poor, primarily employing people from disadvantaged groups or include the poor in their supply chains.
69 See the Management response to the Thematic Evaluation Study on ADB Private Sector Operations: Contributions to Inclusive & Environmentally Sustainable Growth. Paragraph 3 notes, “It should be recognized that direct IG [inclusive growth] interventions are time-consuming and resource intensive.” Paragraph 4 notes, “Our experience, as well as that of other development finance institutions (DFIs), indicates that opportunities for financially viable IG are limited.” (http://www.adb.org/sites/default/files/evaluation-document/36002/files/mr-pso-0.pdf).
70 PSOD tracks inclusive business projects with all types of financing, but ADB official reporting only counts projects with ordinary capital resource financing. 7 projects in 2015 include one project (i.e., Off-Grid Pre-Paid Solar Leasing Project in India) which is not counted in the corporate results framework reporting as it is financed by the Clean Technology Fund. There have been efforts across several multilateral development banks to pursue inclusive business as a core activity. The planned topical paper by Independent Evaluation on a planned comparative institutional review of private sector operations may be able to review the relevant activities in other institutions.
maintain and increase the share of inclusive business in the expanding nonsovereign portfolio, the challenge remains in identifying and supporting commercially viable projects that are likely to have positive impacts on the lives of low-income groups.

87. With regard to environmentally sustainable growth, nonsovereign support for clean energy sources increased significantly after 2009, according to an Independent Evaluation study.\(^71\) This is a shift from the portfolio before Strategy 2020, which contained few PSOD transactions with explicit environment objectives. The study estimated that as a result of ADB’s higher investments in renewable energy, the average CO\(_2\) emissions per kilowatt-hour declined from 729 grams for projects financed in 2000–2008 to 332 grams for those after 2008.

88. Gender mainstreaming has begun in nonsovereign operations in recent years. In 2012 and 2013, there were two effective gender mainstreaming projects. This increased to four in 2014 and 2015. In 2015, two gender equity theme projects—the first in nonsovereign operations—were approved, including the Myanmar Nationwide Telecommunications Project, which focuses on narrowing gender digital divides. These gender mainstreaming projects cover finance, urban housing, agribusiness value chain, and education support. Companies adopt their own gender action plans to enhance the gender equality outcomes of their operations.

3. **The One ADB Approach is Key**

89. Private investment is often held back by the lack of an adequate policy and regulatory frameworks, rather than by lack of funding. A 2013 evaluation that reviewed 173 PSOD transactions approved between 2000 and 2012 notes that government contracts and policies requiring the inclusion of the poor and complementary public sector investments are typical drivers of inclusive private investment (footnote 71). Examples of such measures include public service connection targets for poor areas, slum rehabilitation as a condition for converting parts of slum areas into high-end residential properties, and public rural electrification programs that ensure the inclusion of private power generation and transmission projects. The availability of resources to help community development and livelihood programs, outreach activities, and targeted support for low-income families have been used to develop inclusive private investments.

90. In all of these cases, close cooperation between the departments involved in sovereign and nonsovereign operations is vital. The midterm review of Strategy 2020 noted that institutional coordination between public and private sector operations had improved, but was still not systematic.\(^72\) An IED report has also pointed out that, although there has been emphasis on the need for mutually reinforcing support for enabling environments and private sector investments, this has been rare outside the energy sector. The report found that the share of private sector operations related to ADB support for an enabling environment had not increased since approval of Strategy 2020. However, the incorporation of private sector operations in country strategies had increased (footnote 71).

91. The One ADB approach, which addresses business environment issues in knowledge work, calls for seamless cooperation and coordination within ADB to

---

\(^{71}\) IED. 2013. *ADB Private Sector Operations: Contributions to Inclusive and Environmentally Sustainable Growth*. Manila: ADB.

facilitate the delivery of innovative and potentially transformative knowledge solutions. As part of these efforts, existing instruments such as private sector assessments need to be used more widely and effectively to identify priority reforms and inform country strategies. Opportunities for further collaboration between regional departments and PSOD in preparing these analyses should be sought more forcefully, as indicated in the ADF XI donors’ report.\textsuperscript{73}

92. In order to provide motivation for staff to collaborate, the midterm review of Strategy 2020 recommended that regional departments should receive credit for private sector operations and that PSOD should receive credit for supporting the relevant public sector operations of regional departments. Such institutional mechanisms are essential if the boundaries between sovereign and nonsovereign operations are to be lowered. Efforts to refine them need to continue and they will require the full commitment and determination of ADB leadership if they are to succeed.

93. Assessing the extent to which these strategic goals are being met requires progress to be monitored against appropriately defined indicators. The design and monitoring framework for nonsovereign operations has been strengthened in recent years to improve tracking of project outputs to ensure they are in line with corporate results framework requirements. Project impacts on employment and GHG emissions are also tracked. Collecting data for monitoring is as important as developing a framework. Data collection in nonsovereign operations requires collaboration from private project sponsors or borrowers, so it is vital that ADB enforces the clauses on development impact monitoring requirements in its legal agreements. Systematic collection of annual safeguard monitoring reports from private sponsors is equally important.

D. Chapter Summary

94. Success ratings for country programs, sovereign operations, and nonsovereign operations have all improved in recent years. In country programs, ADB faces difficult challenges in responding to evolving country needs, and analytical work on a broad set of issues will be needed. Efforts are being made to reduce start-up and implementation delays. Ensuring resources are available for operations and maintenance is key to increasing the sustainability of country program results.

95. The increase in a 3-year moving average of the projects rated \textit{successful} or \textit{highly successful} for PCR reporting years 2013-2015 is a recovery from the deterioration in ratings that took place from 2002 to 2010. Maintaining a high success rate will require a strong emphasis on outcomes. Non-infrastructure sector operations perform as well as infrastructure projects in sovereign operations—in particular, there has been a significant improvement in the performance of education and public sector management projects.

96. The quality and adequacy of staff are key elements of success. Projects approved at the end of the year have significantly lower success rates than those approved earlier in the year. Some projects that require strong coordination and care (e.g., environmental safeguard Category A, cofinancing, and regional cooperation projects) perform particularly well. The ratings of policy-based operations have improved. Project evaluation data on nonsovereign operations suggest that

development results and investment profitability are not incompatible and can be pursued simultaneously. Strengthening synergies between sovereign and nonsovereign operations is vital and it needs to become commonplace in ADB.
97. Rapid economic growth in Asia and the Pacific has not only helped lift 1 billion people out of poverty, it has also left an indelible mark on the environment. Countries are faced with various immediate environmental challenges. They are natural hazards, dangerous levels of air pollution, degradation of fresh water resources, and soil erosion. These can undermine the many development gains made so far. As discussed in Chapter 1, these challenges are linked with climate change, which is a threat that requires urgent attention because of the many ways it can disrupt and reverse development efforts. In the Paris Agreement on climate change, countries have acknowledged that the inexorable rise in GHG emissions requires a shift in policy to cap emissions as soon as possible.

98. It is against this backdrop that Independent Evaluation is preparing a topical paper on the relevance of ADB’s strategic response to the region’s environmental challenges. The paper is also intended to serve as an input to the discussion on the next corporate strategy of ADB, Strategy 2030. This year’s AER builds on these efforts to highlight some of the emerging findings on environmentally sustainable growth (ESG)—one of the three strategic agendas of Strategy 2020. It complements the recent work by Independent Evaluation on the other two strategic agendas, Inclusive Growth and Regional Integration, in providing evaluative perspectives on the implementation of Strategy 2020.

A. Context and Challenges

99. The Sustainable Development Goals (SDGs) and the Paris agreement on climate change offer considerable opportunities for ADB. The SDGs are consistent with the overarching mission of poverty reduction and sector-based operations of ADB. They focus on the medium term to 2030, and are aligned with the timeframe of Strategy 2030. They reflect the international community’s consensus that current and future social, economic, environmental, and climate challenges must be addressed through a cooperative and integrated approach. The Paris agreement calls for targets and indicators to be made country-specific to ensure country ownership and development effectiveness. This offers an opportunity for ADB to improve its tracking of its ESG-related priorities.

100. The follow-up actions to implement the Paris agreement will play a key role in determining whether the objective of limiting global warming will be achievable. The Intended Nationally Determined Contributions made by some 180 countries will be critical, but present commitments can only be a minimum set of required actions.

The SDGs and the Paris agreement offer opportunities for ADB

Emission targets need to be complemented by commitment packages to ensure greater energy efficiency, renewable energy, specific policies including the elimination of fossil fuel subsidies, and adaptation to the impacts of climate change.

101. As a whole, the region has succeeded in reducing GHG emissions per unit of GDP; but the region’s contributions to GHG emissions have grown significantly. Some Asian countries are among the largest emitters of GHGs worldwide.\(^75\) The largest economies in the region remain highly dependent on the production and burning of fossil fuels, especially coal. Deforestation and the use of fires for clearing forested land have also contributed to the region’s GHG emissions. In the meantime, around 1.7 billion people in the region still lack access to basic sanitation. In many parts of the region, ecological stresses are evident in the form of biodiversity loss, water scarcity, water and air pollution, ocean acidification, fisheries depletion, deforestation, and wetlands degradation. In 2008, the region accounted for the world’s highest number of threatened species, with Southeast Asia reporting the most serious cases.\(^76\) In South Asia, water security is low and many areas are likely to be disproportionately affected by the effects of climate change and other stresses on water management.\(^77\)

102. The benefits and costs of Asia’s growth manifest themselves most clearly in cities. Cities account for 80% of Asia’s GDP and by 2050, Asia’s urban population will nearly double from 1.6 billion in 2010 to 3 billion.\(^78\) In the meantime, urban air pollution is threatening people’s lives. The World Health Organization reports that the Asia and Pacific region had the largest air-pollution-related burden in 2012, with a total of 3.3 million deaths linked to indoor air pollution and 2.6 million deaths related to outdoor air pollution.\(^79\) In addition, half of Asia’s urban population lives in low-lying coastal zones and flood plains, which are most at risk from climate change impacts, particularly floods, typhoons, and storm surges, and, in the long term, sea level rise.\(^80\)

103. On the institutional and financing landscape, the Green Climate Fund (GCF), the Asian Infrastructure Investment Bank (AIIB), and the New Development Bank will offer both challenges and opportunities for ADB. The investment priorities of the GCF closely overlap with parts of the ESG agenda, which suggests that ADB could be a key partner in GCF operations.\(^81\) In its first round of funding, the GCF will provide a $91 million grant to support the improved resilience of an ADB planned Urban Water Supply and Wastewater Management Project in Fiji. AIIB and the New Development Bank both aim to focus on infrastructure and to introduce faster processing times than the existing multilateral development banks. Both intend to complement existing institutions by providing additional finance. How they will balance infrastructure development with ESG is not yet clear.\(^82\)

---

\(^{75}\) The PRC, India, and Indonesia are the first, third and fifth largest greenhouse gas-emitting countries. The most significant part of Indonesia’s greenhouse gas emission is deforestation. Data from CAIT Climate Data Explorer. 2015. Washington, DC: World Resources Institute. Available online at: [http://cait.wri.org](http://cait.wri.org).


\(^{81}\) The five investment priorities of the GCF are: transforming energy generation and access, creating climate-compatible cities, encouraging low-emission and climate-resilient agriculture, scaling up finance for forests and climate change, and enhancing resilience in small island developing states.

\(^{82}\) ADB and AIIB have confirmed on several occasions the importance of sustainable development and safeguard policies on environmental and social impacts of projects.
B. Support for Environmentally Sustainable Growth

104. The ADB approach to environmental sustainability has been evolving since the early 2000s. Recognizing that economic, social, and environmental policies must address the needs of the poor and ensure the sustainable use of resources, the 2002 Environment Policy identified eight environmental concerns: urban air pollution; water pollution; municipal and industrial solid waste; land degradation; deforestation; biodiversity loss; coastal, marine, and freshwater aquatic resources; and climate change, implying that ADB needed to take action in all these areas. Since then, ADB strategies have moved away from this broad approach. The Medium-Term Strategy for 2006–2008 proposed that ADB be selective and that it should focus primarily on environmental issues specific to the sectors in which it was actively involved and knowledgeable about.

105. Subsequently, ESG was developed as one of the three strategic agendas of Strategy 2020. Environment was also identified as one of five core areas of operations. Attention was to be given to three areas: climate change—both mitigation and adaptation; livable cities; and complementary actions, including the mainstreaming of environmental considerations into country policies and investment programs, while strengthening the legal, regulatory, and enforcement capacities of public institutions.

106. The lack of specifics in Strategy 2020 regarding what ESG would entail in sector and thematic terms has had practical implications for the way it has been operationalized. Sector operational plans since Strategy 2020 have addressed different aspects and provided varying levels of detail on ESG. The Energy Policy of 2009 clearly promotes environmental sustainability as an objective and affirms the need for ADB to work with climate change initiatives toward low-carbon development. However, it does not articulate a definitive position for ADB on support for coal power plants or provide guidance on large hydropower projects.

107. A more comprehensive explanation of ADB’s understanding of ESG was presented in the Environment Operational Directions, 2013–2020, which expanded upon, but to some extent also moved away from, the ESG-related priorities in Strategy 2020. For example, livable cities are no longer mentioned as a priority. Instead, sustainable urban development is cited together with clean energy, sustainable

---

83 The eight environmental concerns noted in the 2002 policy are still highly relevant today. In particular, air and water pollution impose substantial quantifiable public health costs that may not be fully incorporated into GDP and other economic indicators. It is important to note that investment in control (mitigation) of conventional air pollutants (particulate matter, nitrogen oxides, and sulfur oxides) will provide immediate public health and ecosystem benefits with a climate change dividend.

84 Asian Development Bank. 2006. *Medium Term Strategy II, 2006-2008.* Manila. This strategy identified ANR (except fisheries, livestock, irrigation, and water management) as one of the sectors where ADB will be more selective in its operations; and fisheries as one of the subsectors ADB should exit from. The strategy was silent on engagement in the forestry subsector.


87 ADB. 2013. *Environment Operational Directions 2013-2020: Promoting Transitions to Green Growth in Asia and the Pacific.* Manila. p. v. The Environment Operational Directions use the expressions ESG and green growth interchangeably, but do not clearly define either one. They say that green growth is about synergizing environmental protection and economic growth, while reducing poverty and ensuring equitable outcomes in terms of human well-being, thereby effectively overlapping the concept of ESG with that of inclusive growth, which is also directly concerned with reducing poverty and ensuring equitable outcomes in terms of human well-being. This was largely consistent with way other institutions had tried to clarify these terms as a lead into or follow-up to the United Nations Conference on Sustainable Development (or Rio +20) in June 2012.
transport, sustainable water management, and integrated approaches to sustainable infrastructure, under the general heading of sustainable infrastructure. This new heading does not fully capture the integrated dimension of livable cities. Also, sustainable infrastructure should be a component of livable cities and sustainable urban development rather than livable cities and sustainable urban development contributing to sustainable infrastructure. Investing in natural capital, which was not mentioned in Strategy 2020, is highlighted in the Environmental Directions. The other priority areas—climate change and environmental governance—remain the same, but are given more prominence and clarity.

108. Climate change has clearly become the foremost environmental sustainability concern for the region and ADB. This is reflected both in Strategy 2020 and in the Environment Operational Directions. It was reiterated in the midterm review of Strategy 2020 and its action plan. It is also manifested in a climate change strategy, issued in 2010, and, more recently, has been reinforced by the announcement that ADB lending for climate-change-related projects would be more than doubled, from $2.8 billion in 2014 to $6 billion by 2020. By that year, ADB proposes to increase its support for climate change to about 30% of its total investments.

109. In 2014, ADB revised its project classification system and aligned it with Strategy 2020. With the revision, disaster risk management was added to the subcomponents of ESG. Greater direction has also been given to identifying ADB support for climate change mitigation and adaptation. Since 2012, climate change projects have been tracked separately from ESG projects for purposes of multilateral development bank annual reporting on climate finance. These projects are automatically tagged with the global and regional transboundary ESG subthemes. ADB also initiated climate risk screening of all new projects and climate vulnerability risk assessment, as needed, in 2014.

C. Country Partnership Strategies and Portfolio Trends

110. ADB has paid considerable attention to ESG-related themes in its operations, as can be seen in the 16 recent CPSs and the environmental assessment summaries reviewed for this study. These reflect ADB’s rising awareness of the need to help strengthen the resilience of countries to natural hazards. The need to mitigate growing GHG emissions is also highlighted in many of these documents, particularly for the OCR-only countries. Responding to the effects of rapid urbanization, such as air and

---

89 The midterm review reaffirmed ADB’s commitment to scale up support for climate change adaptation; maintain assistance for mitigation through clean energy and energy efficiency projects and sustainable transport; mainstream adaptation and climate resilience in development planning, as well as in project design and implementation; strengthen integrated disaster risk management; promote natural resource management; and support developing member countries to access to global and regional funds for environment and climate change.
92 Previously, it was classified under social development.
93 The CPSs reviewed were: Bangladesh, Cambodia, People’s Republic of China (PRC), Georgia, Fiji, India, Indonesia, Kazakhstan, Lao People’s Democratic Republic (PDR), Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Thailand, and Viet Nam.
94 Sixteen CPSs approved between 2011 and 2015 and the linked environmental assessment summaries were reviewed. The countries were: Bangladesh, Cambodia, PRC, Fiji, Georgia, India, Indonesia, Kazakhstan, Lao PDR, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Thailand, and Viet Nam.
water pollution and municipal and industrial solid waste management, are concerns that cut across countries. Likewise, natural water scarcity and resource management, desertification, soil degradation, deforestation, and loss of biodiversity and/or ecosystems services are priorities across the region.

111. The prioritization of ESG in CPSs has been matched by an increase in projects tagged as supporting ESG. From 2004 to 2014, the number and amount of approved loans and grants with such tags increased from less than 10% to more than half of the total ADB portfolio (Figure 27). In particular, the number of ESG-tagged projects has increased since the approval of Strategy 2020 in 2008.

112. Over the period 2004–2014, ESG-tagged projects were concentrated in four sectors: agricultural and natural resources; energy; transport; and water and other urban infrastructure and services. Over time, transport and energy projects have replaced agricultural and natural resources, and water and other urban infrastructure and services as the largest ESG sectors (Figures 28 and 29). In these four sectors, there is a genuine shift to incorporate environmental concerns into projects.

113. The energy portfolio has made the most substantial shift toward ESG. The increase in the number and amount of energy projects with the ESG tag is partly because of the growth in the number and value of private sector operations. PSOD scaled up its focus on clean energy sources from 2009 onwards, although there were a few transactions with explicit environment objectives before Strategy 2020 and the

**Figure 27: Environmentally Sustainable Growth Financing in ADB Sovereign Operations, 2004–2014**

Note: Environmentally sustainable growth financing in this figure includes all approved sovereign loans and grants as well as cofinanced operations. Cancelled loans and sovereign operations have been excluded.

**Figure 28: Environmentally Sustainable Growth Sovereign Loans and Grants by Sector 2004-2008 (by Value)**

ANR = agriculture and natural resources


**Figure 29: Environmentally Sustainable Growth Sovereign Loans and Grants by Sector 2009-2014 (by Value)**

ANR = agriculture and natural resources


*The energy portfolio has made the most substantial shift toward ESG.*
2009 Energy Policy. The transport portfolio includes many road projects tagged as ESG, especially those that introduce innovative urban transport projects.

114. A review of project success rates indicates that ESG-tagged projects in the four sectors yielded higher success rate than the average for the rest of the portfolio. PCR validation report (PVR) and PPER ratings of projects with PCRs circulated from 2004 to 2014 show that a higher percentage of ESG-tagged projects were rated successful than the average for non ESG-tagged projects (Table 4). Agriculture and natural resources and water projects, which make up the majority of rated projects, were rated particularly highly. The higher rating of ESG-tagged projects in these sectors is influenced by the fact that many took place in countries that perform well, such as the PRC.

<table>
<thead>
<tr>
<th>Sector</th>
<th>All countries</th>
<th>Without PRC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non ESG-Tagged</td>
<td>ESG-Tagged</td>
</tr>
<tr>
<td></td>
<td>Projects Rated (no.)</td>
<td>Projects Rated Successful (%)</td>
</tr>
<tr>
<td>ANR</td>
<td>63</td>
<td>57</td>
</tr>
<tr>
<td>Energy</td>
<td>28</td>
<td>61</td>
</tr>
<tr>
<td>Transport</td>
<td>92</td>
<td>71</td>
</tr>
<tr>
<td>WUS</td>
<td>29</td>
<td>48</td>
</tr>
<tr>
<td>Others</td>
<td>189</td>
<td>59</td>
</tr>
<tr>
<td>Total</td>
<td>401</td>
<td>61</td>
</tr>
</tbody>
</table>

**Table 4: Environmentally Sustainable Growth Project Ratings, 2004–2014**

ANR = agriculture and natural resources, ESG = environmentally sustainable growth, no. = number, WUS = water and other urban infrastructure and services.

Note: Others include finance, multisector, and public sector management; these ratings are based on the latest between the PVR and the Project Performance Evaluation Report.


115. However, even when PRC projects are excluded, ESG projects still have higher success rates across the four main sectors. This performance may be explained by several factors. ESG projects tend to be implemented in countries with better overall project success rates. Lessons from past evaluations suggest that successful ESG projects tend to have high levels of country demand and ownership as well as better project designs that incorporate environmental issues.

116. Despite these promising figures, a closer review suggests that some projects are being tagged as ESG without sufficient justification, which is leading to an overestimation of ESG support by ADB. This is largely because since 2009 an increasing number of transport (road), energy (transmission), and water and other urban infrastructure and services projects whose primary focus is not the environment per se have been tagged as ESG projects. The 2014 revision to the project classification automatically tags all climate change projects with the global and regional transboundary ESG subtheme, yet some climate change projects, particularly those for adaptation, do not always have positive environmental effects. For example, a water supply project in a coastal community threatened by rising sea levels and water salinization may draw on a new water source away from the coast. Although this may be a useful response to climate change, it does not improve the environment.

117. To examine ESG-tagged projects in more detail, a desk review of 65 randomly selected reports and recommendations of the President (RRPs) was carried out. The underlying assumption of the review was that for a project to be regarded as

---

Projects are being tagged as ESG without sufficient justification, leading to an overestimation of ESG support

---

contributing to ESG, it needs to contain some clear elements of environmental sustainability beyond environmental safeguard compliance.

118. To assess the degree of the contribution to ESG, the review adopted the following scale: when ESG is a clear priority in impact or objectives statements and/or the RRP allocated significant budget to the environment, the project was rated largely ESG; when the RRP included the environment as a secondary objective or when components explicitly supporting the environment it was rated partially ESG; when the RRP attempted to move beyond environmental safeguards compliance by introducing small components or activities providing environmental co-benefits it was rated marginal ESG; and when the RRP contained no apparent ESG element, the project was rated negligible ESG. For example, urban mass transit projects with environmental sustainability as a major objective were considered largely ESG. Agricultural and natural resources projects providing infrastructure that also incorporated some water efficiency and conservation components were rated partially ESG. Road transport projects that added small environmental components such as support to a protected area near the road were categorized marginally ESG.

119. Examples of negligible ESG projects included water and other urban infrastructure and services projects that did not involve sewage treatment and/or solid waste management (i.e., water pollution control) or water conservation aspects. Similarly, an energy project that financed transmission or distribution lines, but did not articulate any intended ESG-related outcomes—such as substantial increases in energy efficiency or connections with renewable energy sources to be added to the grid—was considered negligible ESG. Applying these criteria, this review found that 35% were largely ESG, 43% were partially ESG, 12% were negligible ESG, and 9% were marginally ESG (Table 5).

Table 5: Assessment of Environmentally Sustainable Growth Tagged Projects by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>ESG tagging (% of sector)</th>
<th>Largely ESG</th>
<th>Partially ESG</th>
<th>Marginally ESG</th>
<th>Negligible ESG</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANR</td>
<td>55%</td>
<td>46%</td>
<td>46%</td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>Energy</td>
<td>56%</td>
<td>42%</td>
<td>33%</td>
<td>8%</td>
<td>17%</td>
</tr>
<tr>
<td>Transport</td>
<td>31%</td>
<td>47%</td>
<td>33%</td>
<td>7%</td>
<td>13%</td>
</tr>
<tr>
<td>WUS</td>
<td>80%</td>
<td>25%</td>
<td>50%</td>
<td>6%</td>
<td>19%</td>
</tr>
<tr>
<td>Others</td>
<td>9%</td>
<td>11%</td>
<td>56%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>36%</td>
<td>35%</td>
<td>43%</td>
<td>9%</td>
<td>12%</td>
</tr>
</tbody>
</table>

ANR = agriculture and natural resources, ESG = environmentally sustainable growth, WUS = water and other urban infrastructure and services.

Note: Others include finance, multisector, and public sector management.


120. As the number of projects supporting ESG approaches 60%, the precision of and differentiation in ESG tagging need to be improved. First, lack of precision leads to inaccurate information on progress toward ESG goals, which inhibits the ability of ADB to develop and implement corrective measures. Second, lack of precision prevents ADB from making an accurate accounting of its achievements in this area. Rather than simply tagging a project ESG or not ESG, it would be better to apply an approach that reflects the extent of the ESG elements in the project. This would also provide a framework for making projects more ESG-oriented and allow the environmental benefits of a wider range of projects to be properly recognized.

121. This review also found that ADB has been supporting a number of innovative approaches, particularly since Strategy 2020. These approaches are intended to improve the incorporation of environmental concerns in projects by moving beyond traditional sector silos. In terms of innovation, the PRC leads ADB countries. Innovative
approaches that began in PRC, such as sustainable urban transport, have now been replicated in India, Pakistan, and Viet Nam. A number of interesting initiatives in urban development have taken place in recent years, including sponge cities in the PRC, green cities\textsuperscript{96} projects in Viet Nam, climate-resilient urban development projects in Southeast Asia, and smart cities in India. Many have common features, such as a focus on urban livability and resilience to climate change. Projects supported by ADB and the Global Environment Facility (GEF) for wetland and lake rehabilitation in the PRC provide an interesting example of rural development through an integrated approach to protecting natural resources and improving the livelihoods of local communities (Box 2).

\textbf{Box 2: People’s Republic of China: Sanjiang Plain Wetlands Protection Project—Performance Evaluation}

The Sanjiang Plain wetlands contain rich areas of globally significant biodiversity and are particularly important for water birds. The area of the wetlands has been reduced by 80\% from its original size since the 1950s due to multiple pressures, notably drainage to reclaim land for farming. An ADB loan for $15 million was cofinanced by a GEF grant of $12.1 million administered by ADB and funded an integrated conservation and development model to protect the natural resources (biodiversity, water, forests) of the Sanjiang Plain wetlands and their watersheds and improve the well-being of local communities.

Environmentally sustainable alternative livelihoods provided to affected persons were mainly in forest resources management and forest product collection (for farmland-to-forest sites), and wetland attendance and wetland ecotourism (for farmland-to-wetland sites). Of the respondents to a survey, 95\% were either satisfied or very satisfied with their alternative livelihoods and their incomes had been maintained or increased.

A major achievement of the project is that for the first time wetlands are now considered a water user and part of the water allocation decision-making process for the preparation of nature reserve master plans and broader river basin plans. Biodiversity gains in terms of total bird numbers, as well as estimates of other wetland target plant and animal species, were inconclusive, although successful breeding and recruitment of some target endangered bird species in the Sanjiang Plain were achieved. Monitoring projects that aim to achieve such ecological and biodiversity gains require significant investment in training, supporting technologies (e.g., remote sensing) and institutional capacity development. Overall, the project has performed well, has had a significant impact on wetland protection, and has the potential to be scaled-up.


122. The biodiversity corridor projects in the Greater Mekong Subregion and the multi-country Coral Triangle Initiative show how ESG and RCI objectives can be addressed simultaneously in the arena of agriculture and natural resources. If ADB is to scale up such projects it will need to reengage in subsectors such as forestry and fisheries, as well as to provide greater support for ecological management and ecosystem service provision on a more integrated landscape basis than in the past. These projects could offer ADB opportunities to combine climate change mitigation and adaptation. For example, forestry projects could help mitigation efforts by preserving carbon stocks and support adaption efforts by improving flood resilience.

\textsuperscript{96} Green city development, following the ADB Urban Operational Plan, issued in 2010, refers to interventions that follow a 3E approach, which frames development in the context of economy (the competitive city), equity (the inclusive city) and environment (the green city).
D. Issues for the Environmentally Sustainable Growth Agenda

123. ADB has increased the attention it has paid to ESG over the past decade, particularly since Strategy 2020. Given the region’s increasing environmental degradation and high vulnerability to the impact of climate change and to increasingly frequent natural hazards, it needs to continue to focus on the environment, disaster risk management, and climate change adaptation and mitigation in CPs. The announcement that ADB intends to more than double its climate financing by 2020 demonstrates its commitment in this area.

124. The SDGs and the Paris climate change agreement provide an opportunity for ADB to contribute to the emerging momentum for collaborative actions across countries. ADB will need to clarify its strategy, strengthen the pipeline of its ESG operations, ensure the availability of financing and staff, and seek prospects for partnerships to scale up and replicate good practices. The establishment of the AIIB and the New Development Bank offer opportunities and should prompt ADB to reflect on its comparative advantage in the environment and climate change sphere.

125. To guide and encourage innovation and mainstreaming of environmental and climate change issues, ADB strategy documents should provide more clarity and ADB should raise the profile of these documents. The Environment Operational Directions are useful as a source of guidance, but they are a relatively low-level document in the ADB hierarchy when compared with the Environment Policy. A new document at the policy or strategy level could include guidance for the core sectors that contribute to ESG and directions for subsequent sector operational plans.

126. ADB can articulate its framework for ESG more clearly in operational terms and provide more specific guidance to staff on the corporate targets for ESG. This lack of articulation is in contrast to the other two Strategy 2020 strategic objectives, inclusive growth and RCI, both of which have guidelines that define key concepts. A framework and a tagging approach that reflect the degree to which ESG is present in the project is needed. In addition, increasing the precision of and differentiation in ESG tagging and reporting will enable ADB to take timely and targeted actions to achieve ESG goals.

127. A revised guiding document could also help to align the Strategy 2020 ESG priorities, Environmental Directions, and the ESG project classification subthemes and to consistently capture spatial dimensions (urban, rural, transboundary, global) and subthemes (natural resources, eco-efficiency, and sustainable infrastructure). Clarifying these points will help in operationalizing ESG projects.

---


98 The three Strategy 2020 ESG priorities are climate change, livable cities, and complementary actions. The four environmental directions are sustainable infrastructure, natural capital, environmental governance, and capacity, and climate change. The six ESG project classification subthemes are natural resource conservation, urban environmental improvement, eco-efficiency, global and regional transboundary environmental concerns, environment policy and legislation, and disaster risk management.
128. Given the interlinked issues, interventions that cut across sectors and enhance cross-regional department sharing of information and experience hold promise. The success in integrating natural resource conservation with improvement in local livelihoods in Sanjiang Plain in the PRC and efforts to improve natural resource management and biodiversity conservation in the context of RCI offer examples. Such interventions require an emphasis on an integrated and spatially-oriented approach based on a thematic perspective. Sharing of knowledge and experience across sectors and among staff in various operations departments would facilitate cross-sector and cross-country collaboration. ADB needs to monitor progress closely and learn from the various ongoing initiatives to link its focus on urban livability with its efforts to strengthen climate resilience.

129. ADB must continue increasing its focus on climate change, given the gravity and urgency of the challenge for countries in the region. Such efforts also have the potential to advance environmentally sustainable growth in Asia and the Pacific, as many climate change projects have environmental co-benefits. However, the region also faces other ESG challenges that fall outside these efforts, especially in areas that involve more immediate and urgent damage to the poor. These areas are air pollution, both indoor and outdoor; water quality; natural resource degradation; deforestation; and biodiversity loss. While supporting countries to meet their climate change mitigation and adaptation challenges, ADB must not lose sight of the need to assist them with these pressing environmental priorities, and to ensure that it has the financial and human resources to do so effectively.

E. Chapter Summary

130. The attention to ESG in various ADB corporate strategy and sector operational plan documents as well as in CPSs has increased since Strategy 2020 was issued in 2008. The number of ESG-tagged projects has increased, but a closer review suggests that there is not always sufficient justification for such tagging. The precision of ESG tagging needs to be improved as inaccurate information on progress toward ESG goals inhibits the ability of ADB to develop and implement corrective measures.

131. The SDGs and the Paris agreement on climate change set lofty expectations, which need to be clarified and integrated into ADB processes and operations. To guide and encourage innovation and to mainstream environmental and climate change issues, ADB strategy documents should provide more clarity and the profile of these issues should be elevated. There is a need for ADB to articulate its definition of ESG in operational terms to provide more specific guidance to sector staff about what constitutes the corporate targets on ESG. Given the interlinked issues underlying ESG challenges, some of the ongoing attempts that cut across sectors and enhance cross-regional department knowledge sharing seem promising. ADB needs to emphasize an integrated and spatially-oriented approach for rural and urban areas based on a thematic perspective. It should continue its focus on climate change while continuing to pay attention to other ESG priorities not covered by climate change projects.
CHAPTER 4

Recommendations and Follow-Up

132. The pattern of acceptance and implementation of Independent Evaluation recommendations is tracked by the management action records system (MARS). In recent years, ADB has increased efforts to take account of evaluation findings. The Development Effectiveness Committee (DEC) of the ADB Board of Directors has also stressed the importance of these findings and recommendations, particularly in the past two years. The ADB President and Management have sought learning and application of evaluations during regular meetings with Independent Evaluation and have taken action in response to its recommendations. Evaluations have fed into ADB’s strategic directions, for example, in the midterm review of Strategy 2020 and the early work for Strategy 2030.

133. This chapter reviews the acceptance, rejection, and implementation of 265 recommendations issued from 2010 to 2015. It also examines the extent to which the completed actions on recommendations between October 2014 and September 2015 were implemented. Almost all of these are related to climate change and environmental sustainability, private sector operations, and support to institutions—key areas of interest for Strategy 2030. The chapter demonstrates both the seriousness of the process and the challenges; both Independent Evaluation and Management can do more to enhance learning from evaluations.

A. Acceptance of Evaluation Recommendations

134. The pattern of acceptance of recommendations by ADB Management has changed recently in two respects. First, ADB has adopted the practice of breaking up some recommendations into a number of subcomponents in consultation with Independent Evaluation. As a result, the number of actions to track in MARS has increased in the last two years (Linked Document F).

135. Operational departments have indicated that, for evaluation recommendations to add value, they need to be clear, concise, and practical. Unbundling of recommendations into subcomponents is an attempt to make them more actionable and has given Management the flexibility to accept parts of the recommendations that they find useful. For example, the Safeguards Operational Review’s five recommendations were broken into 15 subrecommendations, of which five were

---

99 Established in 2008, the system tracks agreed evaluation recommendations and their responses, action plans, and follow up.
100 For this analysis, the periods are based on reporting year unless specified otherwise (e.g., calendar year). A reporting year covers October Year 0 to September Year 1. For the 2016 Annual Evaluation Review, a reporting period refers to October 2014 to September 2015.
101 The MARS shows 26 completed actions, with almost half due in the third quarter of 2015, self-assessed and validated during the reporting period.
accepted, four partly accepted, and six rejected. Five headline recommendations for the corporate evaluation study on the role of technical assistance in ADB operations were split into 15 subrecommendations of which 6 were accepted and 9 were rejected. Independent Evaluation can and should continue to be clearer on the recommendations specifics, while not being overly prescriptive on the details.

136. Second, Management has made greater efforts to analyze each recommendation and to decide whether to accept it or not. This is evident in the greater selectivity in acceptance: the share of accepted recommendations declined in the reporting years 2014 and 2015. The near full acceptance in 2010–2013 fell to an average of 65% (including partly accepted) in 2014 and 2015 (Figure 30). There were 33 recommendations that were not accepted during the 2-year period from reporting years 2014 to 2015, compared with eight during a four-year period from reporting years 2010 to 2013 (Linked Document F, Table 2).

137. Of the 41 recommendations rejected in 2010–2015, 78% were on strategic direction or guidance, and on business processes to enhance control and operation. The most frequently cited reason for rejection was that necessary actions are already being taken. There were also cases where concerned departments disagreed with the suggested approach or the premises of the recommendations. One out of five recommendations were deemed not useful, while 12% were rejected because of resource and country-level constraints.

138. Given this greater selectivity and the trend to break up recommendations into multiple subrecommendations, it is worth examining the implementation of the (sub)recommendations that were accepted. A significant share of these acceptances were qualified (Linked Document F, Table 3). Qualified acceptance may be a useful way to take account of implementation realities (Box 3). However, qualifications can result in effectively redefining the scope of recommendations by setting preconditions for actions.

139. It is expected that the introduction of the partly accepted category in January 2015 would reduce the number of cases of qualified acceptance and allow the action plan to focus on the parts that are accepted. However, its effect is yet to be evident. During the period of high acceptance rates (2010–2013), 62% of the 162 accepted recommendations were qualified. In 2015, this figure was 68% of 19 accepted recommendations (Linked Document G).

---

102 The ratio of fully accepted recommendations fell from an average of 95% from 2010-2013 to 66% in 2014 and 41% in 2015.
103 This is similar to the initial findings presented in the 2015 AER (para. 217).
106 In the 2015 AER, analysis indicated that 53% of the accepted recommendations in 2011–2014 were qualified.
107 Management has partly accepted 10 out of 95 recommendations since the introduction of the partly accepted category.
140. A review of accepted recommendations from 2010 to 2015 noted a variety of reasons for qualified acceptance. The pattern is similar to that reported in the 2015 AER (Figure 31). In 2015, the reasons for qualified acceptance were either that the issues are already being dealt with or that prerequisites such as feasibility studies, surveys, analysis, and government support, are needed before implementation of the recommendation (Linked Document F, Tables 4-5).

**B. Implementation of Evaluation Recommendations**

141. At a strategic level, learning from evaluations related to major pillars of the corporate strategy—inclusive growth, sustainable development, and regional cooperation—is evident in ADB’s directional documents. This review notes that closer attention has been paid by Management to setting realistic expectation for recommendation implementation. There is a higher level of Management interest and participation in the MARS process than in previous years, which is positive. The centralized approach to recommendation follow-up has been effective in ensuring frequent and timely entry of implementation status in MARS.

142. A self-assessment by ADB departments of the 26 actions on accepted recommendations that became due before October 2015 concluded that 21 (81%) were fully or largely implemented. The validation by Independent Evaluation rated 18 actions (69%) fully or largely implemented, following the 2010-2014 average of 73% (Linked Document F, Table 5 and Linked Document H).

143. Validations by Independent Evaluation agree with three out of four of the self-assessment ratings on completed actions by ADB departments. This year’s 26

---

**Recommendations and Follow-Up**

**Box 3: Qualifying Acceptance of a Recommendation**

The acceptance of a recommendation in the evaluation of the country assistance program for the People’s Republic of China (PRC) to vastly increase support for addressing climate change and protecting the environment in the PRC had two provisos: (i) Management shall determine the type and nature of interventions and not be confined to those suggested in the evaluation report; and (ii) the proportion of identified interventions needs to be set through dialogue with the government. Similarly, Management noted that the recommendation to intensify support for public sector management (i.e., fiscal management and capacity building at the local level) in the PRC is contingent on the government wishing to have ADB involved in this area.

* The Management response noted that the term “vastly” is highly subjective


---

**Figure 31: Reasons for Qualified Acceptance of Recommendations (Reporting Years 2010–2015)**

<table>
<thead>
<tr>
<th>Reason for Qualified Acceptance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related initiatives ongoing</td>
<td>51%</td>
</tr>
<tr>
<td>Differing views on recommendation</td>
<td>16%</td>
</tr>
<tr>
<td>Prerequisite/precondition noted</td>
<td>11%</td>
</tr>
<tr>
<td>Need for changes to scope or targets</td>
<td>22%</td>
</tr>
</tbody>
</table>

Note: N=128


---

**There is a higher level of Management interest and participation in the MARS process than in previous years**

Independent Evaluation agrees with three out of four of the self-assessment ratings by ADB departments

---

108 In the 2015 AER (para. 229), the major reasons are the existence of ongoing related initiatives, differences of opinion not on the general principle of the recommendation but on the details, a need to satisfy preconditions before ADB could address the main recommendation, and a felt need to expand or limit the scope and target of a recommendation because of implementation realities and requirements.
completed actions are drawn from 15 evaluation reports (Linked Document F, Tables 6a and 6b). Of the 69 accepted and 5 partially accepted recommendations, 40 have been completed and validated. The share of fully or largely implemented recommendations is 73% for validation and 80% for self-assessment. Validation agreed with 75% of the self-assessment ratings of the 40 recommendations, downgraded 20% and upgraded 5%.

144. When differences occur, many arise from variations in what is expected from the Management response and follow-up actions. Previous AERs 109 noted that disconnects in validation ratings often come from action plan formulation. Operations departments need to reflect implementation realities that could affect the progress of actions. Meanwhile, Independent Evaluation assesses these actions against the substance and qualifications made in the Management response. All 8 recommendations rated partly implemented and below in this year’s validation have insufficient actions or timeframes to address the expectations of the recommendations and Management response.

145. For example, the thematic evaluation on ADB support to small Pacific island countries urged the expanded use of the project design facility to improve project preparation and readiness. Management agreed that the facility was an appropriate instrument for small Pacific island countries. The self-assessment rated the action fully implemented because the project design advances were fully processed for approval and project proposals in Nauru and Tuvalu were being considered.110 However, in IED’s validation, this was deemed insufficient for a fully implemented rating and the rating of the action was changed to partly implemented.111 The implementation period of 3 months specified in the action plan was too short to allow for implementation.

146. To further examine the patterns of acceptance and implementation, the 265 recommendations112 tracked by MARS have been classified into three categories: those that concern ADB strategy and policy; those that are specific to a sector or theme; and those that deal with processes and procedures to improve operational effectiveness (Linked Document F, Tables 7a and 7b)113 The analysis suggests that a high rate of acceptance does not necessarily lead to a high rate of implementation. Acceptance was high throughout the 2010–2015 period in the sector and theme category, but the implementation of these recommendations was low compared with implementation of recommendations under other categories in the 2014–2015 period. The category with the lowest acceptance—operational effectiveness—had the highest implementation rate, particularly for recommendations made after 2014 (Linked Document F, Figure 1).

147. The 249 recommendations validated from 2010 to 2015 were analyzed to identify which types of recommendations were more likely to be implemented.114 The findings suggest that recommendations and Management responses fell into two

---

110 Project design advance is an instrument established to support project preparation, particularly detailed engineering designs, through advances to clients. (ADB. 2011. Policy Paper on Establishing the Project Design facility. Manila. Para. 9)
111 In addition, Fiji was not covered in this evaluation, which was only about the small Pacific island states, so it was only the Nauru case that corresponds to this recommendation.
112 Based on an analysis of MARS data for recommendations approved from report years 2010 to 2015.
113 Strategy, policy, sector, and theme-related recommendations (based on Strategy 2020 results and classification by Independent Evaluation) are directed toward core areas of ADB operations, drivers of change, country partnerships, and programming directions while operational effectiveness recommendations address financing modalities, project management, and operational resources.
114 Based on an analysis of MARS data for actions on recommendations that became due from report years 2010–2015.
Recommendations and Follow-Up

45

148. Recommendations that call for new practices are challenging because they have ADB-wide or interdepartmental implications, require cooperation from multiple parties, and often involve additional resource allocations. Recommendations focused on adjustments to existing operations are easier to implement because they are familiar, tested with blueprints for success from earlier implementations, project-specific, and build on an existing institutional set-up.\(^{115}\)

149. MARS does not track actions related to the recommendations that Management rejects. Yet, if these indeed are essential suggestions following evaluation, they need to be followed up, with consent of DEC, as over time a convergence of views and acceptance may emerge, as experience shows in a number of cases.

150. There is also a methodological challenge in using the current MARS process to assess whether the issues raised in evaluations have been adequately addressed. As implementation of a recommendation is broken up into actions with different target completion dates, it is difficult to assess the effect of each on the headline issue in the recommendation. The reported effect of one action could be limited if implementation of other complementary actions has not been completed. Unless the broader context of recommendations is captured effectively, the MARS process risks losing its relevance as a mechanism that links evaluations, corporate strategies, and ADB core operations.

C. Next Steps

151. Interaction between Management and Independent Evaluation has strengthened considerably, and there is a system in place that can work well. Transforming the MARS from a compliance-based to a learning process is vital if ADB is to become a learning institution, and collaborative efforts continue to be needed. A new batch of 59 actions on recommendations will be self-assessed and validated for the 2017 AER—double the number for this year. More than three-quarters of these actions address similar issues and are related to climate change and environmental sustainability, and institutional support, reflecting the emerging priorities of the region and ADB operations that are discussed in the next chapter.\(^{116}\)

152. It would help if evaluation recommendations were clear, and follow-up actions were matched closely with the substance of the recommendation. More frequent communications to foster a shared understanding of the expected actions, particularly when evaluation recommendations are drawn up and action plans are prepared, would be useful. Sufficient time for implementation needs to be factored into the action plan in addition to responses that cover all aspects of the action plan.

---

\(^{115}\) This is consistent with the 2015 AER finding that there is a low implementation rate for recommendations that require policy change, external support, and resources.

\(^{116}\) In report year 2015, almost all self-assessed and validated recommendations are related to climate change and environmental sustainability, private sector operations, and support to institutions.
153. Currently, recommendation implementation is reviewed only for actions that are due for completion. This presents the Board, Management, and Independent Evaluation with fragmented information on the actions taken on accepted and partly accepted evaluation recommendations. Monitoring implementation progress for the entire report by including short updates on ongoing actions in addition to the validation of completed actions could offer a more comprehensive picture. Alternatively, the actions entered into MARS for a report could have the same due date (for instance, 2 years after the report), so that when they are due the progress made can be reported in a less fragmented way.

154. Another option would be to assign accepted, rejected, or partly accepted category and track the action status by the headline recommendations rather than by broken down subrecommendations. For partly accepted recommendations, the Management response could indicate which parts are not accepted. The action plan could list actions for all parts of the recommendation that are accepted with one completion date, so that on the due date, the recommendation as a whole, with all its resulting actions, can be reviewed comprehensively.

155. To form a shared vision on the role of MARS in institutional learning, there is a need to review the practices and processes at various stages of the cycle from the formulation of recommendations to reporting on follow-up actions. Experience shows that introducing these new practices will not be easy. Establishing an appropriate mechanism to enable effective learning from experience is a challenge common to many multilateral development banks. Learning from experience and good practices in these organizations could be a useful first step for joint work between the Management and Independent Evaluation.

D. Chapter Summary

156. More selectivity in acting on evaluation recommendations in recent years has meant that fewer recommendations have been accepted. ADB has broken up recommendations into several subrecommendations to make them more actionable in consultation with IED. This approach also allows Management to accept parts of the recommendations. Greater attention and realism are positive developments, and so is the use of qualified acceptance and a new partly accepted category. ADB departments have indicated that, for evaluation recommendations to add value, they need to be clear, concise, and practical.

157. In future, action plans need to match the substance of the Management response more closely. The current reporting system tracks the status of individual actions as they become due based on the follow-up action plan, but in many cases their effects can be visible only when other complementary actions have also been completed. It provides a limited view to the Board, Management, and Independent Evaluation of the implementation of evaluation recommendations. Capturing the broader context of the recommendations would enable ADB to incorporate the learning from evaluations. Addressing the challenges involved in transforming MARS into a learning process will require continued collaborative work between ADB Management and Independent Evaluation.

117 The World Bank Group reports recommendation follow-up status by reports. It typically provides annual reporting of the status of all the recommendation follow-up actions associated with the evaluation report up to 4 years after report publication.
CHAPTER 5

The Way Forward

158. ADB has been a trusted partner for Asia and Pacific countries in their efforts to reduce poverty and share prosperity. It has conscientiously sought to improve its operational performance and efficiency to serve these countries. Improvements in the success rates for its country programs, sovereign operations, and nonsovereign operations in recent years, as well as the implementation of the Strategy 2020 midterm review framework, demonstrate the commitment of ADB to these ends. These efforts should continue.

159. However, as the environment in which the Asia and Pacific countries operate changes, ADB must change too. It not only needs to do things well, but also to do the right things by offering solutions to meet the new challenges the region faces. The region needs to build resilience to risks, confront the causes and effects of climate change, sustain inclusive growth, and leverage the capacity of the private sector. ADB needs to define its comparative advantage in its support for countries as they transition to lower middle-income, upper middle-income, and even high-income countries in coming decades.

160. This report has so far focused on whether ADB is doing things well. This chapter draws lessons from the evaluations discussed in the previous chapters and the findings of other analytical work to indicate how Independent Evaluation can inform the discussion on the new ADB corporate document, Strategy 2030. Independent Evaluation will elaborate these points in a forthcoming topical paper that focuses on evaluative perspectives on Strategy 2030. This paper will be augmented by the findings of the ongoing study on ADB operations in middle-income countries.

A. Building Resilience to Risks

161. ADB recognizes that managing risks from natural hazards is a priority and it has made progress in addressing this issue. Support for disaster response in ADF countries has grown and the Disaster Response Facility has proved effective during its pilot phase. The recently adopted operational plan for integrated disaster risk management provides a foundation for improving the effectiveness of operations in this area (footnote 59). The recent evaluation of ADF X and XI operations indicates that mainstreaming and possibly increasing disaster risk management efforts would strengthen the capacity of ADB to provide support. Building-back-better after a disaster and incorporating disaster risk reduction principles into infrastructure projects before one are critical. With respect to climate risk, ADB has established a corporate approach to ensure that project performance is not compromised by climate change; all new projects are screened and more detailed assessments are required when climate change risks are medium or high.118

118 For a summary of this process, see ADB 2014. Climate Management in ADB Projects. Manila.
162. ADB can also be a catalyst in creating disaster risk finance options, as suggested in an evaluation of the ADB response to disaster risks.\(^\text{119}\) ADB already provides precautionary financing through the Countercyclical Support Facility for economic crises, and in the same way it could introduce precautionary financing options that could be used to provide liquidity in response to natural hazards.

163. Food insecurity remains a major concern in the region as changes in weather patterns due to climate change cause uncertainty in food production. This insecurity is also a fallout of the food crisis in 2008, the causes of which are closely linked with the global integration of commodity markets. Food insecurity can add 4 percentage points to the region’s poverty rate according to an ADB estimate.\(^\text{120}\) ADB focuses its food security support on the supply side through infrastructure investments in connectivity (roads), productivity (irrigation), and resilience (water-based natural resources management). A greater focus on preventing the erosion of household purchasing power to address the demand side through safety nets and other interventions that target the vulnerable would be useful in future support (footnote 59).

164. Compared with the threats posed by disasters and climate change, the risks of perpetuating poverty and distress caused by social tension, conflict, and violence are less widely recognized within ADB. The evaluation of ADF operations noted that ADB could underestimate the magnitude of the challenge if it limited its attention to countries classified as fragile and conflict-affected situations (FCAS). Establishing confidence in the state, and strengthening institutions to meet people’s needs are key, particularly for citizen security, justice, and jobs.\(^\text{121}\) Support to strengthen institutions that encourage participation in public policy and provide pathways for social mobility can help reduce tension and address pockets of poverty.

165. To manage the risks from economic shocks, countries will need to reduce their shock magnifiers, strengthen shock absorbers, and build strong risk management into their fiscal, financial, and corporate systems. Large foreign exchange reserves, conservative fiscal policies, low debt burdens, and a diversified production base and export markets remain the standard prescriptions. While recognizing the leading role of the International Monetary Fund, ADB could play a complementary role on issues closely linked with Asia and the Pacific as it has already done in the creation of the Chiang Mai Initiative and other regional initiatives.\(^\text{122}\) ADB can also build on the existing platforms for dialogue related to its support for RCI. Embedding risk management in ADB-supported projects and programs is vital. In particular, ADB needs to continue the rigorous application of its environmental and social safeguards, the benefits of which far exceed the associated costs.\(^\text{123}\)

B. Climate Change and Environmental Sustainability

166. ADB has been making visible efforts to enhance environmental sustainability and to address the causes and effects of climate change. The evaluation of ADF X and

---

\(^{119}\) IED. 2012. *ADB’s Response to Natural Disasters and Disaster Risks*. Manila. ADB.

\(^{120}\) ADB. 2014. *Key Indicators for Asia and the Pacific 2014*. Manila.


\(^{122}\) ADB has also provided technical support for the Regional Comprehensive Economic Partnership and been instrumental in establishing the ASEAN+3 Macroeconomic Research Office (AMRO), and the Economic Research Institute for ASEAN and East Asia (ERIA), as well as in supporting the agreement on the ASEAN food security reserve.

XI operations showed that a growing number of CPSs include program objectives related to climate change or environmental sustainability and that these issues are being addressed in the portfolios of many ADF countries (footnote 59). Environmentally sustainable growth concerns are increasingly being integrated into thematic, sector, and country strategies. The announcement in September 2015 that ADB intends to more than double its annual climate financing to $6 billion by 2020 reinforces and country strategies. The announcement in September 2015 that ADB intends to

167. ADB has a role to play in helping countries implement and monitor their commitments under the Intended Nationally Determined Contributions and the relevant SDGs. Efforts in these areas should be fully integrated into CPSs and included in policy dialogue with governments. ADB's role as an honest broker fostering collaboration among regional stakeholders and development partners could help address the cross-country and multisectoral challenges associated with climate change. ADB can also help countries access sources of financing. It can step up its knowledge and capacity building programs on infrastructure and climate change in order to help countries identify and develop projects, highlight opportunities to increase environmental co-benefits in operations, and strengthen resilience to climate risks. ADB can finance innovative pilot initiatives and carrying out rigorous impact assessments of these initiatives and disseminating the findings.

168. Ensuring adequate financing and human resources to support these activities must be a priority. ADB can continue to explore ways to access and use climate finance and to work in collaboration with other involved parties. To operationalize efforts to strengthen environmental sustainability, ADB needs to articulate its definition of ESG and clarify its corporate direction in this area. The tagging of projects that contribute to ESG needs to be done more precisely. Developing interventions that cut across sectors and countries will be key to addressing the interlinked underlying issues.

C. Sustaining Inclusive Growth

169. Sustaining growth in increasingly competitive global markets requires countries to find new drivers for growth while extracting extra mileage out of their existing industries. At the same time, the negative impact of a high level of inequality on a country's economic growth rate indicates that growth must be made inclusive. To this end, it is vital to exploit the links between economic growth and low inequality. Better access to education and health care and well-targeted social policies, while ensuring that labor market institutions do not excessively penalize the poor, can help raise the income share of the poor and the middle class. On education, the 2015 ADB Key Indicators point to the strong link between the quality of education and economic growth, but these links are severely underexploited in the current ADB portfolio, even


125 ADB. 2015. Key Indicators for Asia and Pacific 2015. Manila. The report projects that by focusing on top-end skills where at least 15% of the population achieves program for international student assessment (PISA) or trends in international mathematics and science study (TIMSS) test scores over 600 (as in OECD economies), growth could be at least 30% higher than it would be if the country just focused on improving basic skills.
with the efforts under Strategy 2020. Education projects represented 7% of total approved projects by number and 5% by amount from 2012 to 2014.\textsuperscript{126}

170. The significant improvement in the performance of education sector operations demonstrates that ADB can support this sector effectively. The timing is right for ADB to scale up its education portfolio as many Asian countries are trying to raise education, skill, and technology levels to keep pace with increasing wages. Increasing access to health care services and providing better nutrition, particularly for children, are also effective tools to reduce the gap. There is ample evidence of the effectiveness of conditional cash transfer programs linked with education, health, and nutrition services in reducing poverty and income gaps within society (for example, in Brazil, Mexico, and the Philippines). ADB can usefully consider enhancing capacity in these areas.

171. Supporting greater gender equality—an unfinished agenda in many countries in the region—is another critical aspect of inclusive growth.\textsuperscript{127} The \textit{Asian Development Outlook 2015 Update} notes that the effect of women’s participation in the labor market on economic growth can be substantial if added over generations—a potential 30% gain in per capita income achieved after one generation, and 70% after two generations in developing Asia.\textsuperscript{128} To harness this potential, CPSs need to be supported by strong country gender assessments. An Independent Evaluation report that reviewed ADB support for gender and development from 1998 to 2009 in six countries noted that country gender assessments did not significantly influence CPSs.\textsuperscript{129} The thematic evaluation on ADB’s support for gender and development to be completed in 2017 will update this analysis.\textsuperscript{130}

172. At the same time, it is sensible for ADB to maintain its strong focus on infrastructure, given its potential impact on growth. A majority of studies report that infrastructure investment has a significant positive effect on output, productivity, and growth rate.\textsuperscript{131} ADB has also accumulated knowledge and capacity through its sustained engagement in this area. There is still a large need for infrastructure investment, both in terms of quantity and quality. Regarding quantity, a financing gap

\begin{footnotesize}

\textsuperscript{127}In developing Asia, girls’ average schooling remains below the world average of 8.1 years, while boys’ schooling approaches the world average of 8.6 years. A strong preference for sons remains, particularly in some parts of the region, and women’s workforce participation fell from 56% in 1990 to 49% in 2013. ADB. 2015. \textit{Asian Development Outlook 2015 Update: Enabling Women, Energizing Asia}. Manila.


\textsuperscript{129}IED. 2010. \textit{Special Evaluation Study on the Asian Development Bank’s Support to Gender and Development. Phase 2: Results from Country Case Studies}. Manila: ADB.

\textsuperscript{130}There have been successful cases of mainstreaming gender issues in projects. For example, the Urban Governance and Infrastructure Improvement Project in Bangladesh helped increase women’s participation in the administration and development programs of the pourashavas (secondary towns), and its provisions relating to the engagement of women and civil society were incorporated in the 2008 Pourashava Ordinance and the 2009 Pourashava Act. IED. 2014. Validation Report: Urban Governance and Infrastructure Improvement (Sector) Project in Bangladesh. Manila: ADB.

\textsuperscript{131}ADB. 2015. \textit{An Overview of Public Infrastructure, Growth, Poverty and Inclusion}. D. Bhattasali (Consultant’s report), Manila, notes that although estimates vary, a 1% increase in the stock of infrastructure capital could raise aggregate output permanently by 1% to 2%. P. Bom and J. Lighthart. 2014. What Have We Learned from Three Decades of Research on the Productivity of Public Capital? \textit{Journal of Economic Surveys}. 28 (5), pp. 889–916, reports a short-run output elasticity of public capital supplied at the central government level of 0.083, which increases to 0.122 in the long run. If, in addition, only core infrastructure at a regional or local level of government is considered, these estimates almost double. The average output elasticity of public capital amounts to 0.106. C. Calderon, E. Moral-Benito and L. Serven. 2015. Is Infrastructure Capital Productive? A Dynamic Heterogeneous Approach. \textit{Journal of Applied Econometrics}. 30 (2) pp. 177–198, measures the long-run output elasticity of a combined index of power, transport, and communications physical stocks as ranging between 0.07 and 0.10.
\end{footnotesize}
of $8 trillion from 2010 to 2020 is often quoted. The quality of infrastructure as measured by the World Bank’s Logistics Performance Index ranks the East Asia and Pacific region marginally above other regions, although there is still a significant gap when performance is compared with the level in members of the Organisation for Economic Co-operation and Development or in other high-income countries. South Asia trails behind (Figure 32).

173. ADB needs to increase its emphasis on the social benefits and costs of infrastructure projects, even though this may increase the costs of project preparation and implementation. High-quality infrastructure services are critical to reducing the opportunity gaps between income groups as the rich are able to make up for shortfalls in infrastructure, but the poor cannot. Increasing the access of the poor to water and sewerage facilities, roads to schools, and public transportation to health clinics, have a direct effect on reducing this gap. ADB can work to expand such a portfolio by ensuring that the incorporation of social benefits into infrastructure projects is fully reflected in country strategies and operational plans.

174. Cities are at the confluence of challenges from natural hazards, climate change, and inclusive growth. Cities are growing, despite their massive shortfalls in transport infrastructure, access to electricity and sanitation, means to abate pollution, and ability to face natural hazards. A strong emphasis on support in this area would enable ADB to address multiple challenges and generate greater impact.

D. Private Sector

175. Private sector and nonsovereign operations have to be vital parts of the strategic direction of ADB. For ADB to add value, it needs to foster inclusive and sustainable growth while ensuring profitability and financial viability in order to sustain results. In nonsovereign operations, development results and investment profitability are not incompatible. Given that public sector funding cannot fill the vast gap in infrastructure financing, a significant expansion of nonsovereign operations in infrastructure is needed, especially given the high success rate of such operations.

176. Equally important in unleashing the power of the private sector is the creation of an enabling environment in which it can thrive. Increasing the quality and availability of infrastructure, strengthening the regulatory framework, facilitating access to finance, and raising the quality of public service delivery are core conditions. In most of the cases, these will require reforms in the public sector.

177. Private sector solutions for service delivery can stimulate innovation and increase the sustainability of results. The ADB-financed Philippines Energy Efficiency

---

Project supported the purchase and free distribution of 13 million compact fluorescent lights (CFLs) under the Clean Development Mechanism. After the distribution of the first 5 million lights, it was found that CFLs had already penetrated the market. This reduced the role of the public sector in CFL distribution, but increased the likelihood of project sustainability. Private institutions can also deliver education services and manage hospitals highly effectively, while networks of financial institutions offer an ideal mechanism to distribute social welfare benefits to poor people efficiently.

178. The key to identifying opportunities for private sector involvement in service delivery is to seek private sector solutions wherever possible, irrespective of whether the project is in the public or private sector. Just as project teams must ensure their projects are environmentally sound and risks are appropriately managed, they can ensure that, for every project, careful consideration is given to the involvement of the private sector—whether it is a project that finances public service delivery, or environmental improvements, or infrastructure development.

179. There are also risks associated with private sector involvement, particularly when projects feature innovative initiatives that pursue both private and social gains. Rigorous risk management is necessary, but creating space for staff to take calculated risks for high potential returns is essential. In this context, it would be useful for ADB to monitor the outcomes of the pilot implementation of the Faster Approach to Small Nonsovereign Transactions, which aims to streamline business processes, particularly for smaller private sector transactions that have significant development impact but come with higher up-front risks and costs.

E. Support for Middle-Income Countries

180. The shift in the region’s profile from a predominantly low-income to a largely middle-income region means that ADB will have to adjust its focus. Today, most of the countries with active ADB operations are already middle-income countries; by 2020, only Afghanistan and Nepal are expected to remain low-income countries. Given that middle-income countries generally have better access to the capital markets, ADB needs to ensure that it can add value through knowledge support and leveraging private sector resources.

181. This transition will also be accompanied by growth in the middle class: most Asians will be middle class and, globally, most of the middle class will be Asian. Historically, such transitions have been accompanied by increases in demand for better public services, in particular, high-quality health care, education, transport, and environmental services. This new middle class will also require social welfare programs and social safety nets as fertility rates decline, labor force growth slows, and old-age-dependency ratios rise. ADB needs to develop skills and expertise so it can offer solutions in these areas. Independent Evaluation will examine ADB’s experience and draw lessons in the upcoming study on ADB support to middle-income countries.

182. Experience also shows that upper middle- or high-income countries with limited or no borrowing from international financial institutions occasionally need

---

immediate financing, as has happened in previous economic crises. For ADB to be prepared for such a crisis situation, it needs to continue its dialogue with counterparts in these countries to keep its country knowledge current. Such ongoing dialogue has proven useful in the responses of ADB and the World Bank to economic crises. Given the critical roles of failures in the financial sector in previous global and regional economic crises, ADB needs to be engaged and to carry out knowledge work in this area.

183. ADB also needs to help countries harness the potential of their domestic financial resources to fill the enormous financing gap for development activities. This was one of the major items of discussion at the International Conference on Financing for Development in Addis Ababa in July 2015. A strong financial sector can efficiently allocate the financial assets of increasingly affluent segments of the population in these countries.

184. Finally, continued engagement with upper middle- and high-income countries will provide ADB with opportunities to learn about the emerging issues that such countries are increasingly dealing with, including demographic change, pension reforms, urban management, subnational conflicts, violence, and renewable energy. Such engagement would deepen the analytical base and quality of ADB advice on these emerging issues.

F. Institutional Support

185. The challenges of the future are cross-sector and cross-country in nature; accordingly, solutions need to be developed through collaboration across sectors and countries. More emphasis needs to be placed on thematic, rather than sector, perspectives. Alliances of partners across diverse stakeholders and countries need to be forged, inside and outside ADB.

186. If ADB is able to leverage diverse skills and harness them in well-functioning teams this will provide it with a dynamic comparative advantage in responding to evolving country needs. Leveraging the financial capacity of partners—existing and new multilateral development banks, bilateral agencies, private sector, and civil society—will also be critical.\textsuperscript{137}

187. Involving more partners and stakeholders may increase transaction costs, but the recent evaluations of ADB’s efforts on regional cooperation and integration and of ADB partnerships found that regional cooperation and cofinancing projects do well compared with other projects. Close attention to project design and implementation progress monitoring can yield benefits that exceed the added costs.\textsuperscript{138}

188. Evaluations of country programs, sector and thematic programs, investment projects, and policy-based operations all emphasize the value of high-quality analytical work. Knowledge of country conditions helps define the strategic and thematic objectives of the country program and enables ADB to respond to changing needs.

---


\textsuperscript{137}IEM. 2016. \textit{Effectiveness of Asian Development Bank’s Partnerships}. Manila: ADB.

Engaging in a candid and substantive dialogue with country authorities and other stakeholders requires a strong in-country presence. Resident missions can play an important role in facilitating and guiding the dialogue so ADB can use the expertise of partners in a mutually beneficial way, gain real-time knowledge about changing needs in the country, and pay close attention to projects under preparation and implementation. Project and program success also depends on the quality of staff involved and on project preparation as discussed in Chapter 2.

Lessons from experience help to prepare for challenges in the future. In this context, orienting the MARS process toward learning as discussed in Chapter 4 would be useful. Impact evaluation is a potentially useful tool to deepen ADB’s understanding of the results of development interventions. International agencies have yet to integrate it fully in projects at their design stage as there are practical challenges to be overcome. For example, the World Bank has conducted impact evaluations in no more than 10% of its portfolio from 2005 to 2011. Some activities are not amenable to impact evaluation, for example, nationwide public sector reform programs and many infrastructure projects. In addition, the high costs of building baselines and undertaking rigorous study means that impact evaluation has to be undertaken selectively.

Impact evaluation in ADB is at an early stage. ADB has carried out 18 related studies from 2009 to 2015, most of which focused on non-infrastructure interventions (Table 6). The value of ADB impact evaluation studies cannot yet be known, given the brief history of such studies in ADB. However, some of the completed impact evaluation studies have provided analysis to support self-and independent evaluations, have informed the development of a subsequent project phase, and have promoted cross-learning among stakeholders. An impact evaluation in Sri Lanka, for example, provided evidence of the effectiveness of innovative teaching and learning technology in a specific subject. Conducting the research has also built technical and administrative capacities of project team members.

Other impact evaluations have proved effective in informing policy decisions, improving project efficiency and effectiveness, and guiding resource allocations. Impact evaluation requires the links between the intended outcomes and interventions to be clear and measurable. This clarity helps project implementation and monitoring.

### Table 6: Completed Impact Evaluation Studies, 2009–2015

<table>
<thead>
<tr>
<th>Sector</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure</strong></td>
<td>7</td>
</tr>
<tr>
<td>Agriculture and Natural Resources</td>
<td>2</td>
</tr>
<tr>
<td>Energy</td>
<td>1</td>
</tr>
<tr>
<td>Transport</td>
<td>3</td>
</tr>
<tr>
<td>Water and Other Urban Infrastructure and Services</td>
<td>1</td>
</tr>
<tr>
<td><strong>Non Infrastructure</strong></td>
<td>11</td>
</tr>
<tr>
<td>Agriculture and Natural Resources</td>
<td>1</td>
</tr>
<tr>
<td>Education</td>
<td>4</td>
</tr>
<tr>
<td>Finance</td>
<td>1</td>
</tr>
<tr>
<td>Health</td>
<td>3</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>1</td>
</tr>
<tr>
<td>Public Sector Management</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>18</td>
</tr>
</tbody>
</table>

Note: Include completion of baseline surveys. Source: Economic Research and Regional Cooperation Department, Independent Evaluation Department.

---

Serious efforts need to be made to institutionalize impact evaluation in the project cycle.

G. Recommendations

Countries in Asia and the Pacific increasingly face challenges that cut across sectors and countries. Drawing from the findings of recent evaluations, this report offers five recommendations as follows.

(i) Include efforts to address two vital links: (a) between climate and environmental challenges and infrastructure investment, and (b) between economic growth and inclusion as key strategic pillars of Strategy 2030;

(ii) Strengthen synergy between sovereign and nonsovereign operations;

(iii) Continue strengthening the operational quality assurance system to deal with the increase in projects that cut across boundaries;

(iv) Management and IED to develop effective ways to capture the broader context of evaluation recommendations and ADB efforts to address them; and

(v) Develop a strategy for talent management, cross-sector collaboration, and budget allocations that matches the priorities of Strategy 2030.
Appendixes
### Table A1.1: Evaluation Studies and Products

<table>
<thead>
<tr>
<th>Type and Title</th>
<th>Circulation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Annual Report (1)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>B. Corporate Evaluation Studies (2)</strong></td>
<td></td>
</tr>
<tr>
<td>ADB Support to Pacific Small Island Countries</td>
<td>03-Mar-2015</td>
</tr>
<tr>
<td><strong>C. Thematic Evaluation Study (1)</strong></td>
<td></td>
</tr>
<tr>
<td>ADB’s Efforts on Regional Cooperation and Integration</td>
<td>21-Oct-2015</td>
</tr>
<tr>
<td><strong>D. Country Assistance Program Evaluations and CPS Final Review Validations (5)</strong></td>
<td></td>
</tr>
<tr>
<td>Country Assistance Program Evaluation for Papua New Guinea</td>
<td>04-Feb-2015</td>
</tr>
<tr>
<td>Indonesia: Country Partnership Strategy Final Review Validation</td>
<td>06-May-2015</td>
</tr>
<tr>
<td><strong>E. Project or Program Performance Evaluation Reports (5)</strong></td>
<td></td>
</tr>
<tr>
<td>Philippines: Acquisition and Rehabilitation of the Masinloc Coal-Fired Thermal Power Plant</td>
<td>19-Mar-2015</td>
</tr>
<tr>
<td>Regional: Greater Mekong Subregion Regional Communicable Diseases Control Project</td>
<td>30-Sep-2015</td>
</tr>
<tr>
<td><strong>F. TA Performance Evaluation Reports (1)</strong></td>
<td></td>
</tr>
<tr>
<td>Technical Assistance Grants to Support Development of Cross-Border Bond Markets in the ASEAN+3 Countries</td>
<td>02-Oct-2015</td>
</tr>
<tr>
<td><strong>G. Topical, Working Papers, and Publications (5)</strong></td>
<td></td>
</tr>
<tr>
<td>Global Increase in Climate-Related Disasters</td>
<td>24-Nov-2015</td>
</tr>
<tr>
<td>Remembering our Future (with Results for Development)</td>
<td>23-Jun-2015</td>
</tr>
<tr>
<td>Inspiring ADB’s Future: Better Results in a Dynamic Region</td>
<td>27-May-2015</td>
</tr>
<tr>
<td><strong>H. Learning Lessons (2)</strong></td>
<td></td>
</tr>
<tr>
<td>To Foster Inclusive Growth, Tackle Inequality and Climate Change</td>
<td>09-Jun-2015</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan or Grant No.</th>
<th>Country</th>
<th>Project Name</th>
<th>PCR Circulation Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2089</td>
<td>PRC</td>
<td>Hunan Roads Development II Project</td>
<td>2012</td>
</tr>
<tr>
<td>2028</td>
<td>MLD</td>
<td>Employment Skills Training Project</td>
<td>2012</td>
</tr>
<tr>
<td>0161</td>
<td>AFG</td>
<td>Hairatan to Mazar-e-Sharif Railway Development Project</td>
<td>2013</td>
</tr>
<tr>
<td>2015</td>
<td>BAN</td>
<td>Second Primary Education Development Project</td>
<td>2013</td>
</tr>
<tr>
<td>2323</td>
<td>IND</td>
<td>MFF: Madhya Pradesh Power Sector Investment Program (Tranche 1)</td>
<td>2013</td>
</tr>
<tr>
<td>2116</td>
<td>PRC</td>
<td>Dali Lijiang Railway Project</td>
<td>2013</td>
</tr>
<tr>
<td>2625/2801</td>
<td>SAM</td>
<td>Economic Recovery Support Program Subprograms 1 and 2</td>
<td>2014</td>
</tr>
<tr>
<td>2307/G0070</td>
<td>MON</td>
<td>Customs Modernization Project</td>
<td>2014</td>
</tr>
<tr>
<td>2064/2065</td>
<td>INO</td>
<td>Participatory Irrigation Sector Project</td>
<td>2014</td>
</tr>
<tr>
<td>0041</td>
<td>REG</td>
<td>Prevention &amp; Control of Avian Influenza in Asia &amp; the Pacific</td>
<td>2014</td>
</tr>
<tr>
<td>1709/2242/2243</td>
<td>PNG</td>
<td>Road Maintenance &amp; Upgrading (Sector) Project</td>
<td>2014</td>
</tr>
<tr>
<td>2271/G0061</td>
<td>TAJ</td>
<td>Sustainable Cotton Subsector Project</td>
<td>2014</td>
</tr>
<tr>
<td>2484/2645</td>
<td>PAK</td>
<td>Sindh Growth &amp; Rural Revitalization Program</td>
<td>2014</td>
</tr>
<tr>
<td>2147</td>
<td>BAN</td>
<td>Chittagong Port Trade Facilitation Project</td>
<td>2014</td>
</tr>
<tr>
<td>2239</td>
<td>PRC</td>
<td>Guangxi Nanning Urban Environmental Upgrading Project</td>
<td>2014</td>
</tr>
<tr>
<td>2294</td>
<td>INO</td>
<td>Madrasah Education Development Project</td>
<td>2014</td>
</tr>
<tr>
<td>2035</td>
<td>CAM</td>
<td>Northwest Irrigation Sector Project</td>
<td>2014</td>
</tr>
<tr>
<td>2021</td>
<td>BAN</td>
<td>Road Network Improvement and Maintenance Project II</td>
<td>2014</td>
</tr>
<tr>
<td>1839</td>
<td>IND</td>
<td>Western Transport Corridor Project</td>
<td>2014</td>
</tr>
<tr>
<td>2427</td>
<td>MLD</td>
<td>Private Sector Development Project</td>
<td>2014</td>
</tr>
<tr>
<td>2050</td>
<td>IND</td>
<td>Chhattisgarh State Roads Development Sector Project</td>
<td>2014</td>
</tr>
<tr>
<td>2170</td>
<td>MLD</td>
<td>Regional Development Project, Phase II—Environmental Infrastructure and Management</td>
<td>2014</td>
</tr>
<tr>
<td>1711/2413</td>
<td>SRI</td>
<td>Southern Transport Development Project</td>
<td>2014</td>
</tr>
<tr>
<td>1922</td>
<td>PRC</td>
<td>Hebei Zhanghewan Pumped Storage Project</td>
<td>2014</td>
</tr>
<tr>
<td>0158</td>
<td>MON</td>
<td>Education for the Poor—Financial Crisis Response Project</td>
<td>2014</td>
</tr>
<tr>
<td>2101</td>
<td>BAN</td>
<td>Teaching Quality Improvement in Secondary Education Project</td>
<td>2014</td>
</tr>
<tr>
<td>2172</td>
<td>BAN</td>
<td>Second Urban Primary Health Care Project</td>
<td>2014</td>
</tr>
<tr>
<td>2074/2075</td>
<td>INO</td>
<td>Second Decentralized Health Services Project</td>
<td>2014</td>
</tr>
<tr>
<td>0016/0205</td>
<td>LAO</td>
<td>Northern and Central Regions Water Supply and Sanitation Sector Project</td>
<td>2014</td>
</tr>
<tr>
<td>2232</td>
<td>BAN</td>
<td>Improvement of Capital Market and Insurance Governance Project</td>
<td>2014</td>
</tr>
<tr>
<td>2575</td>
<td>INO</td>
<td>Rural Infrastructure Support to the PNPM Mandiri Project II</td>
<td>2014</td>
</tr>
<tr>
<td>2388</td>
<td>PRC</td>
<td>Kunming Qingshuai Water Supply Project</td>
<td>2014</td>
</tr>
<tr>
<td>2667/0084KGZ, 2359/0085TAJ</td>
<td>KGZ/TAJ</td>
<td>CAREC Regional Road Corridor Improvement Project</td>
<td>2014</td>
</tr>
<tr>
<td>2393</td>
<td>PRC</td>
<td>Xinjiang Regional Road Improvement Project (Korla–Kuga Section)</td>
<td>2014</td>
</tr>
<tr>
<td>2716</td>
<td>GEO</td>
<td>Road Corridor Investment Program—Tranche 2</td>
<td>2014</td>
</tr>
<tr>
<td>2283</td>
<td>VIE</td>
<td>Agriculture Science and Technology Project</td>
<td>2014</td>
</tr>
<tr>
<td>2306/0069</td>
<td>LAO</td>
<td>Basic Education Sector Development Program</td>
<td>2014</td>
</tr>
<tr>
<td>0318</td>
<td>TUV</td>
<td>Strengthened Public Financial Management Program</td>
<td>2014</td>
</tr>
<tr>
<td>0093/0094</td>
<td>NEP</td>
<td>Rural ‘Reconstruction and Rehabilitation’ Sector Development Program</td>
<td>2014</td>
</tr>
<tr>
<td>0118/0206</td>
<td>NEP</td>
<td>Governance Support Program (Subprogram I)</td>
<td>2014</td>
</tr>
<tr>
<td>2281</td>
<td>IND</td>
<td>Rural Cooperative Credit Restructuring and Development Program</td>
<td>2014</td>
</tr>
<tr>
<td>2346</td>
<td>IND</td>
<td>MFF: Madhya Pradesh Power Sector Investment Program (Tranche 3)</td>
<td>2014</td>
</tr>
<tr>
<td>2136/2137</td>
<td>PHI</td>
<td>Health Sector Development Program</td>
<td>2014</td>
</tr>
<tr>
<td>2377/2707</td>
<td>VIE</td>
<td>Third Financial Sector Program</td>
<td>2014</td>
</tr>
<tr>
<td>2385/2386/2547/</td>
<td>PAK</td>
<td>Punjab Government Efficiency Improvement Program</td>
<td>2014</td>
</tr>
<tr>
<td>Loan or Grant No.</td>
<td>Country</td>
<td>Project Name</td>
<td>PCR Circulation Year</td>
</tr>
<tr>
<td>------------------</td>
<td>---------</td>
<td>--------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>2548</td>
<td>RMI</td>
<td>Public Sector Program—Subprograms 1 and 2</td>
<td>2014</td>
</tr>
<tr>
<td>2659/2950</td>
<td>PNG</td>
<td>Community Water Transport Project</td>
<td>2014</td>
</tr>
<tr>
<td>2356</td>
<td>TAJ</td>
<td>Khatlon Province Flood Risk Management Project</td>
<td>2015</td>
</tr>
<tr>
<td>0077</td>
<td>KGZ</td>
<td>Tax Administration Reform and Modernization Project</td>
<td>2015</td>
</tr>
<tr>
<td>0120/0319/0393</td>
<td>KGZ</td>
<td>Investment Climate Improvement Project System Support Project (Subprograms 1 to 3)</td>
<td>2015</td>
</tr>
<tr>
<td>2485</td>
<td>PAK</td>
<td>Punjab Millennium Development Goals Program (Subprogram 1)</td>
<td>2015</td>
</tr>
<tr>
<td>2069</td>
<td>UZB</td>
<td>Amu Zang Irrigation Rehabilitation Project</td>
<td>2015</td>
</tr>
<tr>
<td>2406/0104/8242</td>
<td>CAM</td>
<td>Road Asset Management Project</td>
<td>2015</td>
</tr>
<tr>
<td>2285</td>
<td>INO</td>
<td>Sustainable Aquaculture Development for Food Security and Poverty Reduction Project</td>
<td>2015</td>
</tr>
<tr>
<td>0125</td>
<td>MON</td>
<td>Education Sector Reform Project</td>
<td>2015</td>
</tr>
<tr>
<td>0086</td>
<td>MON</td>
<td>Third Health Sector Development Project</td>
<td>2015</td>
</tr>
<tr>
<td>0339</td>
<td>SOL</td>
<td>Economic and Financial Reform Program</td>
<td>2015</td>
</tr>
<tr>
<td>2472/2473/2739</td>
<td>COO</td>
<td>Avatu Port Development Project</td>
<td>2015</td>
</tr>
<tr>
<td>2507/0142</td>
<td>PHI</td>
<td>Philippine Energy Efficiency Project</td>
<td>2015</td>
</tr>
<tr>
<td>2180/0015</td>
<td>VIE</td>
<td>Preventive Health System Support Project</td>
<td>2015</td>
</tr>
<tr>
<td>2379/2577</td>
<td>INO</td>
<td>Capital Market Development Program Cluster (Subprograms 1 and 2)</td>
<td>2015</td>
</tr>
<tr>
<td>2298</td>
<td>VIE</td>
<td>Upper Secondary and Professional Teacher Development Project</td>
<td>2015</td>
</tr>
<tr>
<td>1983</td>
<td>INO</td>
<td>Power Transmission Improvement Sector Project</td>
<td>2015</td>
</tr>
</tbody>
</table>

B. Extended Annual Review Reports for Nonsovereign Operations (16)^

<table>
<thead>
<tr>
<th>Project Name</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan Export Finance Guarantee Agency Ltd.</td>
<td>7166</td>
</tr>
<tr>
<td>RMIT International University Viet Nam</td>
<td>7169/1827</td>
</tr>
<tr>
<td>FEGACE Asian Sub-Fund LP</td>
<td>7187</td>
</tr>
<tr>
<td>Afghanistan Investment Guarantee Facility</td>
<td>7201/G2091</td>
</tr>
<tr>
<td>Cameron Grandville Asset Management</td>
<td>7212/2173</td>
</tr>
<tr>
<td>National Home Mortgage Finance Co.</td>
<td>7221/2155</td>
</tr>
<tr>
<td>JSC Kazkommertsbank</td>
<td>7249/2320</td>
</tr>
<tr>
<td>Karachi Electric Supply Company</td>
<td>7254/2329</td>
</tr>
<tr>
<td>Bank of Georgia</td>
<td>7260/2344/2690</td>
</tr>
<tr>
<td>International Bank of Azerbaijan</td>
<td>7266/2364</td>
</tr>
<tr>
<td>Eucalypt Mortgages Sdn. Bhd.</td>
<td>7268/2367</td>
</tr>
<tr>
<td>Saigon Thuong Tin Bank (Sacombank)</td>
<td>7289/2486</td>
</tr>
<tr>
<td>MAP Clean Energy Master Fund</td>
<td>7294</td>
</tr>
<tr>
<td>Solar Power Project</td>
<td>7311/2628</td>
</tr>
<tr>
<td>Garadagh Cement Expansion and Energy Efficiency Project</td>
<td>7313/2637</td>
</tr>
<tr>
<td>Asia Water Fund</td>
<td>7318</td>
</tr>
</tbody>
</table>


* Evaluation reports are available at www.adb.org/site/evaluation/resources.
* Evaluation reports for nonsovereign operations are uploaded once redacted versions are available.
## Appendix 2: Evaluations Discussed by the Board of Directors and the Development Effectiveness Committee in 2015

<table>
<thead>
<tr>
<th>Topic</th>
<th>Date of Management Response</th>
<th>Management Response</th>
<th>Date of DEC meeting</th>
<th>DEC chair summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country Assistance Program Evaluation for Papua New Guinea</td>
<td>17-Feb-2015</td>
<td>Link</td>
<td>23-Feb-2015</td>
<td>Link</td>
</tr>
<tr>
<td>Action Plan on Thematic Evaluation Study on Inclusive Growth</td>
<td>None</td>
<td>None</td>
<td>23-Feb-2015</td>
<td>Link</td>
</tr>
<tr>
<td>ADB Support to Pacific Small Island Countries</td>
<td>16-Mar-2015</td>
<td>Link</td>
<td>24-Mar-2015</td>
<td>Link</td>
</tr>
<tr>
<td>Country Assistance Program Evaluation for the People’s Republic of China</td>
<td>7-Sep-2015</td>
<td>Link</td>
<td>14-Sep-2015</td>
<td>Link</td>
</tr>
<tr>
<td>IED Work Program 2016-2018</td>
<td>None</td>
<td>None</td>
<td>14-Sep-2015</td>
<td>Link</td>
</tr>
<tr>
<td>ADB’s Efforts on Regional Cooperation and Integration</td>
<td>4-Nov-2015</td>
<td>Link</td>
<td>10-Nov-2015</td>
<td>Link</td>
</tr>
</tbody>
</table>

*The 2015 Annual Evaluation Review was discussed in 14 April 2015 by the full Board of Directors. No summary was prepared for this meeting.*

ADB = Asian Development Bank, DEC = Development Effectiveness Committee, IED = Independent Evaluation Department.

APPENDIX 3: SUMMARY OF MAJOR REPORTS IN 2015

1. The Annual Evaluation Review 2016 builds on the findings of recent major reports. The following sections present summaries of select reports that were published in 2015 and early 2016. Those published in 2015 that were already covered in the 2015 Annual Evaluation Review are not included in this Appendix.

A. Country Assistance Performance Evaluation

2. People’s Republic of China. The country assistance program evaluation for the People’s Republic of China (PRC) covers the country partnership strategy (CPS) period 2006–2013. The two previous country assessments for the PRC were in 1998 and 2007. After more than three decades of high growth and transition to upper middle-income status, the country is experiencing an economic slowdown, shifting from an investment-first approach to one that promotes consumer spending. Environmental degradation, domestic migration and rapid urbanization, a changing demographic profile, and fiscal imbalances provide tough challenges to sustaining growth. Difficult reforms are required across several dimensions, with the main economic reforms being to address financial risks, rebalance the economy and tap new sources of growth.

3. Findings from the evaluation include the following: (i) since 2006, ADB has emphasized social inclusion and environmental improvement, private sector operations, and knowledge support across sectors and themes, signaling a sharp shift from a largely infrastructure focus prior to 2006; (ii) the ADB program during the 2006–2013 period is rated successful and the PRC acknowledges the value addition of ADB support, notably inputs into policy making, improving safeguard systems, and designing innovative projects; (iii) the country programming process for TA projects has become more participatory in recent years, and this has potentially increased the scope for value addition; (iv) a participatory approach to the design of loan projects can add value by supporting innovative project designs; (v) ADB supported the PRC under the Central Asia Regional Economic Cooperation and Greater Mekong Subregion programs, and the PRC is both a beneficiary of and a contributor to these regional programs; and (v) nonsovereign and private sector operations have increased and demonstrated value addition.

4. The evaluation also flags the following important weaknesses that must be addressed. First, the small scale of ADB loan operations has made it difficult to maintain continuity across areas of engagement (the ratio of ADB sovereign loans to total investment in PRC was 1:40,000 in 2012). In particular, it is difficult to know the extent to which procurement and safeguard systems are internalized, or capacity development benefits are institutionalized. Second, the benefits to PRC from policy advice and knowledge support are uncertain. Policy advice is taken as food for thought by the central government, and the extent to which new policy is implemented by provincial and local governments is highly variable. Third, the financial sustainability of certain loan projects is weak, and will require continued government support to remain viable. Financial sustainability will likely improve with government moves to encourage private participation in public utility projects.

5. The evaluation finds that continuing the ADB and PRC relationship will be mutually beneficial. With stepped-up efforts, ADB’s knowledge inputs will benefit the PRC. With stronger cross-country partnerships, the PRC’s development experience will be valuable to other countries. ADB’s continued engagement with the PRC can and must generate positive externalities for the region and the world, most critically, related to climate change mitigation and air and water quality. The evaluation thus calls for ADB to shift its focus over the next 5 years even though the current program is successful, just as ADB changed gears in 2006 from a successful largely infrastructure-focused program to one where social inclusion and environmental improvement were emphasized, along with private sector
operations and knowledge support. The recommended areas are: strengthening of ADB’s honest broker role in regional cooperation and integration; strongly stepping up work on climate change and the environment; focusing sharply on reducing social inequalities and poverty; intensifying support for public sector management; and continuing with private sector operations and upstream policy dialogue.

B. Validations of Country Partnership Strategy Final Reviews

6. **Indonesia.** The validation of the country partnership strategy final review covers the CPS period 2012–2014. ADB support contributed to a better electrification rate through improvements in the transmission and distribution systems, the rehabilitation of Indonesia’s national road system, increased inter-island mobility, access to safe water and new sanitation facilities for 194,000 households, and improvements in education sector policies and nonbank financial sector assets. There were significant deviations between planned and implemented programs due to adjustments during program implementation. A lack of prioritization in addressing the country’s binding constraints and insufficient groundwork for climate change interventions are also noted. Given the worsening urban deprivation and disparities across provinces, the importance of addressing inequality in inclusive growth efforts is emphasized. Recommendations highlight the need to foster inclusive growth in project designs, promote climate-change-resilient infrastructure and renewable energy, focus on innovative approaches to development (i.e., transformative knowledge solutions and use of impact evaluations), and strengthen diagnostic work to facilitate proper project designs and selection of priority sectors. The program is assessed to be **successful with satisfactory** strategic positioning. The program was **less than relevant, effective, less than efficient, likely sustainable and satisfactory** in its development impacts.

7. **Timor-Leste.** The validation of the country partnership and strategy final review for Timor-Leste covers the CPS period 2011–2015. The $272 million in ADB support aimed to contribute to sustained economic growth and shared economic opportunities, mainly through support for transport infrastructure and water and sanitation operations. The weak implementation and absorptive capacity contributed to slow progress in achieving the intended outputs and outcomes. The country assessment recommends that ADB create opportunities to build synergies with other sectors, effectively mainstream inclusive growth in project design, strengthen results frameworks and monitoring, strengthen implementation, support the monitoring and evaluation capacity of executing and implementing agencies, mainstream project implementation arrangements within the government’s administrative structure, focus technical assistance on the core areas of support to ensure complementary capacity development initiatives, and prioritize asset management and funding for operations and maintenance funding in policy dialogue. The validation finds the program **less than successful** overall. The report concludes that the program was **relevant, less than effective, less than efficient, less than likely sustainable, and less than satisfactory** in its development impacts. The Pacific Department disagreed with these ratings.

8. **Maldives.** The validation of the country partnership and strategy final review covers the CPS period 2007–2011. The $73.17 million of ADB support contributed to good governance and economic growth through fiscal enhancement and consolidation, energy self-sufficiency, and strengthened government capacity in the micro, small, and medium-sized enterprises sector. The transport sector’s contribution to improving provincial and inter-island connectivity has been marginal and there has been an insufficient increase in public transport. Sector performance has been affected by the management arrangements in the sector (i.e., the dissolution of the Ministry of Transportation and Communication and the transfer of its functions to several public and private agencies). Recommendations emphasize the need to strengthen fiscal management, diversify the economic base, achieve greater inclusiveness, mainstream environmentally sustainable growth initiatives in sector

---

1. This is the third country assessment for ADB operations in Indonesia. The first one was in 2005 and the second in 2011.
2. A previous country assessment of Timor-Leste operations was completed in August 2011. This focused on evaluating ADB support of the restoration program that would help the country transition from its post-conflict situation.
policies and investments, and strengthen project management capacity in the public sector. Future programs can build on the successful use of programmatic lending and the importance of the collective efforts of the donor community to ensure fiscal sustainability as well as innovative initiatives in energy that combine the sustainable environmental and economic agendas. The program is assessed to be successful with satisfactory strategic positioning. The program was relevant, effective, efficient, likely sustainable, and satisfactory in its development impacts.

9. **Bangladesh.** The validation of the country partnership and strategy final review covers the period 2011–2015. While most of the projects are still ongoing, ADB support has already indicated that it is improving access to electricity through an expansion of power generation and transmission and institutional strengthening, increasing access to clean water and sanitation facilities, reducing the incidence of waterborne diseases, and improving the governance of Bangladesh’s capital market. In transport, while there is progress in the implementation of road projects, substantial delays may constrain the timely achievement of results. Weak integration of results frameworks at project, sector and country levels is an area that could be strengthened in the next CPS period. There is also a need to ensure that flexibility and country responsiveness do not result in program drift that could add risk and reduce the performance of ADB support. ADB also needs to identify ways to mitigate the risk of political instability affecting implementation of ADB-funded projects, build institutional capacities at the municipal levels, and provide a detailed analysis and assessment of governance and public sector management. The CPS 2011-2015 was assessed to be successful with satisfactory strategic positioning. The program was relevant, effective, less than efficient, likely sustainable, and less than satisfactory in its development impacts.

10. **Myanmar.** The validation of the country partnership strategy final review for Myanmar covers the interim CPS period 2012–2014. ADB approved $968.6 million in lending and nonlending operations during this period: a policy-based loan, which helped address arrears and signaled the government’s commitment to wide-ranging economic reforms, accounted for about 59% of approved lending. The interim CPS sought to build human resources and capacity; promote an enabling economic environment; and increase access and connectivity. The program helped Myanmar build human resources and capacity by strengthening institutional arrangements, legal frameworks and sector analysis, and planning. There were varying degrees of progress in actions to promote enabling an economic environment covering business registration, public debt, a companies act, and customs operations. Infrastructure for access and connectivity was enhanced by reforming private sector provision in the power sector, and by launching investment operations in power transmission, off-grid renewable energy, and road development. Design and capacity challenges delayed implementation of projects. The report recommends ADB enhance capacity development involving development partners and improve alignment with government systems, anticipate and support decentralization in ADB priority sectors, address conflict sensitivities, and continue to pursue inclusive growth objectives. It concludes that the program was relevant, effective, less than efficient, likely sustainable, and satisfactory in its development impact. ADB has only recently reengaged with Myanmar, and there are few closed projects with completion reports available. Consequently, the validation was not able to provide a definitive assessment of outcomes and impacts for most projects. The validation emphasized the preliminary nature of the ratings—it is much too early to determine most project outcomes.

C. **Corporate and Thematic Evaluation Studies**

11. **Asian Development Bank Support for Regional Cooperation and Integration.** This evaluation finds that ADB has made progress in mainstreaming the RCI agenda and undertaking RCI work. Many ADB departments have contributed to the RCI agenda, although it was not a fully integrated or well-coordinated effort. The success rate for projects labelled as RCI was 81%, higher than the average for all ADB-supported projects (61%), even though RCI projects are typically more complex than non-RCI projects. This was partly due to the careful preparation of RCI projects to meet the needs of multiple stakeholders. Key stakeholders in ADB country governments and development partners have given ADB
good marks for its RCI work. The perception survey indicates that ADB has done well across its RCI roles, particularly as a financial institution and an honest broker. However, it needs to improve its capacity building role.

12. The RCI evaluation finds that the three main subregional programs—Greater Mekong Subregion, Central Asia Regional Economic Cooperation, and South Asia Subregional Economic Cooperation—have enabled closer coordination and collaboration among countries, improved connectivity through cross-border infrastructure, boosted trade and investment, and addressed shared risks and responsibilities. Moreover, the evaluation highlights that ADB was flexible in identifying priority sectors and the scope of RCI activities in countries under these subregional programs. However, it points out that the links between regional integration and the other two strategic development agendas, inclusive growth and environmentally sustainable growth, need strengthening. For inclusive growth, it recommends transforming transport corridors into economic corridors, noting that this would create jobs and link least developed areas to the transport corridor, thus spreading the benefits to hinterland areas in the process. For environmentally sustainable growth, it recommends doing more to address natural resource cooperation issues (transboundary water and air pollution, and regional water, forestry, fisheries, and biodiversity resources management), which are gaps that ADB can fill in the future.

13. The evaluation also notes that the enabling environment for mainstreaming the RCI agenda has strengths and weaknesses. After the approval of the RCI strategy in 2006, ADB’s sector policies, strategies, and operational plans were generally aligned with the RCI agenda, but thematic strategies were less aligned. Moreover, improvements have been largely achieved in the RCI pillars of physical connectivity; development and harmonization of financial markets; and cross-border environment, health, and social conditions. However, progress in intraregional trade has been partly achieved. In terms of country partnership strategies, their alignment with RCI varied in structure, depth, and quality. Organizationally, ADB has provided adequate resources for the RCI agenda. However, regional departments have raised concerns about the procedural requirements to access Asian Development Fund financing for RCI.

14. The report recommends that ADB broaden the RCI agenda beyond cross-border infrastructure (which should be maintained); deepen attention to fragile, island and linchpin countries; strengthen coordination across and within subregions; bolster country ownership for RCI; and develop new RCI project models. These are intended to feed into the RCI operational plan of ADB, which is currently being prepared, and to strengthen the value and impact of RCI work in future.

15. **Asian Development Fund X and XI Operations.** The region’s low-income countries have seen moderate economic growth, made tangible progress on poverty reduction, and largely kept income inequality in check. However, they still have high proportions of poor people, have struggled to meet the non-income Millennium Development Goals, and remain fragile and highly vulnerable to shocks. Renewed and more effective development support is urgently needed to narrow the gaps. Bangladesh, Viet Nam, Pakistan, Nepal, and Cambodia have received the most ADF loan resources since 2009, while Afghanistan, Tajikistan, and Nepal have received the most in grants. The small Pacific island countries received the least in absolute terms, but the most on a per capita basis.

16. ADF-financed projects have historically underperformed, with an aggregate success rate of 62% over the past decade, but performance has improved in recent years. Based on a 3-year moving average, the success rate is now close to 70%. While this falls well below the 80% corporate target success rate, it provides grounds for optimism. Health, social protection, transport, and multisector projects had the highest success rates over the decade, although their shares of total operations vary widely. Meanwhile, energy, agriculture and natural resources, industry and trade, and public sector management projects have shown the most improvement over time. ADB private sector operations in low-income countries show encouraging results; while still limited in number and size, private sector
Appendix 3

66

deals have had a 77% success rate, despite the more difficult business environments. Altogether, this suggests that ADB can perform well in multiple areas, and it is moving toward becoming a more versatile and dynamic development partner.

17. Intensified support for inclusive and environmentally sustainable growth and an effective response to climate change and disaster risks is more critical than ever. Several organizational improvements should help operational results, namely: adopting a knowledge-first approach; building staff expertise in key areas; and strengthening project supervision where capacity is weakest. While development in these countries will remain difficult, the evaluation finds that incremental progress can be made. ADB reforms and new resources, coupled with renewed global commitments for sustainable development and tackling climate change, provide a real opportunity for ADB to make a bigger difference in Asia’s poorest and most vulnerable countries.

18. Effectiveness of Asian Development Bank Partnerships. The evaluation assesses the effectiveness of three types of ADB partnerships: interagency coordination partnerships (mainly with bilateral aid agencies and international institutions including multilateral development banks), knowledge partnerships (often with academic or research institutions and with civil society organizations) and financing partnerships (to enable working with trust funds from others, or do project-specific cofinancing). A mapping exercise of all partnerships initiated between 2000 and 2014 registered 74 interagency coordination partnerships, 261 knowledge partnerships, and 87 financing partnerships. A self-assessment by ADB departments and offices of the many partnerships they maintain—validated in some cases by case studies done for the evaluation—leads to the conclusion that ADB regards around three-quarters of its partnerships as meeting their objectives (about 73% of knowledge partnerships, 75% of interagency partnerships, and 79% of financing partnerships)—a generally acceptable result. An IED assessment of a number of case studies confirms this generally positive experience, but notes a mixed picture for knowledge partnerships, which is also evident from the fact that only 63% of informal knowledge partnerships are self-assessed to be effective.

19. Challenges to making partnerships work optimally, and to engaging in more partnerships, are reflected in the fact that some partners reported that ADB’s procedures and consultant recruitment rules were relatively cumbersome and that sometimes there were insufficient staff resources for supervision. Very few true partnerships have materialized with either civil society organizations or private sector companies so far. ADB’s accounting system for cofinancing and trust funds needs updating and this is underway.

20. Quantitative analysis points out that projects that were cofinanced were often more successful (81%) than noncofinanced projects (67%) and that this is a statistically significant difference. Selection by cofinancing partners of the most promising project proposals may play a role in this but, nevertheless, circumstantial evidence also points to these projects benefiting from receiving greater attention during both design and implementation, by way of more scrutiny and supervision by different partners involved. This supports the recommendation that ADB should go the extra mile in promoting project-specific cofinancing with partners, and should take a greater role through financing partnership facilities.

21. The preparations for Strategy 2030 will provide an excellent opportunity to renew commitments for expanding and deepening ADB’s partnerships. The crucial role of partnerships is supported by the changing development cooperation landscape. The Sustainable Development Goals, commitments to the Addis Ababa financing goals and to the Paris climate change agreement goals, and the arrival of new regional banks are just some of the developments taking place. The evaluation argues for structural changes within ADB to improve facilitation of partnerships, notably in the roles of the Strategy and Policy Department, the Office of Cofinancing Operations, and the Sustainable Development and Climate Change Department. It also suggests breaking down the current cofinancing target for 2020 into separate targets for official and commercial cofinancing, and within the latter into
trade financing and other cofinancing. To get the best out of knowledge partnerships, ADB needs changes in the rules of engagement. Financing partnerships need to be managed more efficiently and the sector and thematic groups should be aligned better with the new financing partnership facilities.

D. Performance of Individual Operations

22. IED completed four project and program performance evaluation reports (PPERs) for sovereign operations, three of which were for projects in the PRC and one of which was for a project in the Greater Mekong Subregion. In addition, one technical assistance performance evaluation for ASEAN+3 countries was carried out. The PPERs highlighted the importance of strong leadership, ownership, and commitment to project success, which help to ensure timely action on actual and potential problems. Moreover, at various project stages (planning, implementation, and evaluation), a strong relationship needs to be maintained between partners, along with the continuity of officials and staff involved in project preparation and implementation. The project design must also factor in the longer-term needs of the affected persons. Increasing activities in practical skill training, medium-term technical support, on-site demonstration, and advisory services in livelihood development will boost sustainability. The key findings of these PPERs are summarized below.

23. **PRC: Gansu Heihe Rural Hydropower Development Investment Program—Tranche 1. Erlongshan Hydropower Project (2007–2008).** The project was assessed to be highly successful (highly relevant, highly effective, highly efficient, likely sustainable). It has provided clean, reliable, and affordable hydropower to rural consumers in Gansu Province. It has also enabled knowledge-sharing on best-practice run-of-river hydropower engineering design and construction, financial and technical operations, and certified emission reductions. The project is efficient. Power station facilities were completed 7 months ahead of schedule. The recalculated economic internal rate of return (EIRR) is 16.1%. The project was assessed as financially, technically, and environmentally sustainable.

24. **PRC: Heilongjiang Road Network Development Project (2007–2012).** The project was assessed to be successful (relevant, effective, efficient, likely sustainable). The project developed an efficient, safe, and environment-friendly road transport system. It contributed to shorter travel times (from 12 hours to 7.5 hours between Linkou and Baiquan), a fare reduction of more than 10%, a doubling of the frequency of visits to township markets, a reduction in the number of traffic accidents (18%), and lower CO\(_2\) emissions (30.5%). The project’s EIRR (20%) indicates that it is efficient. Road maintenance is carried out as a matter of routine, supported by an adequate maintenance budget, equipment and maintenance staff. The PPER also finds that low-cost bids have hidden costs and rarely have adequate management and contingency budgets. To ensure appropriate quality, significant supervision and monitoring by the executing agency during construction is necessary. A comparison of bids and the expected quality of the higher cost bids should be done before contract awarding, with no exceptions for exceptionally low-cost bids. This would help improve the project implementation process within the expected supervisory budget.

25. **PRC: Sanjiang Plain Wetlands Protection Project (2005–2013):** The project was assessed to be successful (relevant, effective, efficient, likely sustainable). The project increased upland forest cover, restored degraded wetlands, improved wetland hydrology, and established wetland management capacity. It also expanded opportunities for alternative livelihoods. The project is efficient, with an EIRR of 16.7%. Factors favoring the project’s sustainability include the national commitment to wetland management and conservation, establishment of a wetland management and conservation center in Heilongjiang, continued leadership of the executing agency, and project support. The project demonstrates that, where projects call for environmental protection, the provision of alternative livelihoods is vital, and non-cash compensation or in-kind support can work well for that purpose.

26. **Greater Mekong Subregion Regional Communicable Diseases Control Project (2005–2012).** The project was rated successful (relevant, effective, efficient, likely sustainable). It strengthened the
capacity to assess the emergence of epidemics and take timely action to control their spread. It was mainstreamed through existing national programs and provincial health services. The institutional and financial sustainability of regional coordination for communicable disease control was rated likely.

E. Technical Assistance Performance Evaluation Report

27. Technical Assistance Grants to Support Development of Cross-Border Bond Markets in the ASEAN+3 Countries (2003–2012). The technical assistance activities were assessed as successful (highly relevant, effective, efficient, likely sustainable). The cluster of seven technical assistance grants led to the establishment of the Credit Guarantee and Investment Facility, a regional settlement intermediary, and an expert group that identified barriers to cross-border transactions and settlement. It helped to institutionalize the participation of market players through the ASEAN+3 Bond Market Forum, which is meant to boost dialogue between the private sector and ASEAN+3 officials and to harmonize regulations on cross-border bond transactions. Harmonization is likely to be sustained, given the move toward financial integration and the proactive role of the ASEAN Capital Market Forum. This report underscores that design flexibility is needed to support evolving decision-making and consensus-building processes. While flexibility may lead to the extension of completion dates and increased costs, the benefits from increased client participation and ownership make it worthwhile. Moreover, institutionalizing the participation of market participants and experts contributes positively to the performance of technical assistance projects in the cluster.

3 ASEAN refers to the Association of Southeast Asian Nations, comprising Brunei-Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam. ASEAN+3 refers to ASEAN plus the PRC, Japan, and the Republic of Korea.
## APPENDIX 4: EVALUATION METHODS FOR PUBLIC SECTOR OPERATIONS

<table>
<thead>
<tr>
<th>Item</th>
<th>Project or Program Performance Evaluation Reports</th>
<th>Validation of Project or Program Completion Reports</th>
<th>Country Assistance Program Evaluation</th>
<th>Validation of Country Partnership Strategy Final Review Report</th>
</tr>
</thead>
</table>
| **Coverage**     | ▪ In a given year, Independent Evaluation (IED) will validate and/or conduct in-depth evaluations of about 80% of all completed project or program completion reports (PCRs)
▪ The selection of completed public sector operations for in-depth evaluation is based on purposive sampling | ▪ A country assistance program evaluation (CAPE) assesses ADB’s work and its results (development impact) in a particular country over periods of 7–12 years. It can cover 2–3 country partnership strategies (CPSs) | ▪ A validation of a CPS final review report (CPSFR-VR) generally covers one CPS period, although it may include earlier periods, and usually also includes implementation and results of projects approved |
| **Approach**     | ▪ Based on an assessment of actual versus intended project outputs, outcomes, and impacts | ▪ A CPSFR-VR generally follows the CAPE methodology unless otherwise specified |
▪ A CPSFR-VR relies mainly on information and data in the CPSFR report, relevant documents, interviews with key ADB staff and a short field visit to interview staff from the government, counterparts, and development partners |
▪ CAPEs undertake more extensive data collection than CPSFR-VR |
| **Evaluation Rating** | ▪ Evaluated or validated operations are rated highly successful, successful, less than successful, or unsuccessful |
▪ For projects, equal weights are applied to the four core evaluation criteria in order to determine the overall success rate:
▪ Relevance: of project design in addressing stated sector constraints and development issues,
▪ Effectiveness: in achieving project outcomes and outputs,
▪ Efficiency: in achieving project outcomes and outputs,
▪ Sustainability: of project outcomes |
▪ In addition, the likely impact of the project or program; the performance of the Asian Development Bank; and the performance of the borrower and executing agency in relation to the project or program under review are rated. These ratings do not affect the overall rating. | ▪ A country program is rated highly successful, successful, less than successful, or unsuccessful |
▪ Equal weights are applied to the following five core evaluation criteria in order to determine the overall success rate:
▪ Relevance: Appropriateness of CPS objectives in meeting the country’s needs and ADB objectives, its strategic positioning and sector program relevance and design quality |
▪ Effectiveness: Achievement of outputs and outcomes against CPS targets; including institutional development in various sectors |
▪ Efficiency: CPS program costs versus benefits; program implementation and disbursement and contract award performance; and other measures affecting efficiency |
▪ Sustainability: Adequacy of various factors to sustain results, adequacy of risk mitigation arrangements |
▪ Development Impacts: ADB contribution to development results in the country, unintended outcomes and impacts, including unintended safeguard impacts, and unplanned institutional impacts |

APPENDIX 5: LIST OF LINKED DOCUMENTS

   http://www.adb.org/sites/default/files/linked-documents/1-Performance-Assessment-of-ADB-
   Country-Assistance-Programs.pdf

B. Sovereign Operations: Success Rates and Results of Validations
   http://www.adb.org/sites/default/files/linked-documents/2-Sovereign-Operations-Success-Rates-
   and-Results-of-Validations.pdf

C. Testing for Significance of Differences in Project Success Rates
   http://www.adb.org/sites/default/files/linked-documents/3-Testing-for-Significance-of-
   Differences-in-Project-Success-Rates.pdf

D. Analyzing the Determinants of Project Success: A Probit Regression Approach
   http://www.adb.org/sites/default/files/linked-documents/4-Analyzing-the-Determinants-of-
   Project-Success-A-Probit-Regression-Approach.pdf

E. Nonsovereign Operations: Success Rates by Approval Year
   http://www.adb.org/sites/default/files/linked-documents/5-Nonsovereign-Operations-Success-
   Rates-by-Approval-Year.pdf

F. Review of Acceptance and Implementation of Evaluation Recommendations, Report Years
   2010–2015
   http://www.adb.org/sites/default/files/linked-documents/6-Review-of-Acceptance-and-

   http://www.adb.org/sites/default/files/linked-documents/7-Evaluation-Recommendations-

H. Self-Assessment and Validation of Actions on Recommendations Due in Report Year 2015
   http://www.adb.org/sites/default/files/linked-documents/8-Self-Assessment-and-Validation-of-
   Actions-on-Recommendations-2015.pdf