

Development Effectiveness Committee Meeting - 25 October 2011

CHAIR'S SUMMARY

Discussion Highlights

I. Special Evaluation Study: Managing for Development Results

1. IED staff mentioned that the special evaluation study (SES) on Managing for Development Results (MfDR) was a process evaluation which found ADB performing well in mainstreaming MfDR compared to other international financial institutions. However, they underscored that more needs to be done on the latter part of the results chain (outcomes and impacts), particularly in ensuring effectiveness and sustainability. They argued that MfDR in ADB cannot be disconnected from developing member countries (DMC) capacity for MfDR at the country level. SPD staff agreed with the evaluation's recommendations, and concurred with its findings on areas needing more attention. DEC members appreciated IED's analysis and noted improving staff and Management perceptions on MfDR mainstreaming. DEC sought clarification on the following issues: (i) results monitoring, (ii) project classification, (iii) rating system, and (iv) capacity development.

Results Monitoring

2. DEC members stressed that Management and staff should strive to diligently monitor and report outcomes and outputs while recognizing that there are inherent tradeoffs between delivering activities and monitoring outcomes. DEC members highlighted the importance of results reporting not only as a public accountability tool but also as a planning tool to assist organizational learning or capacity development. DEC members also endorsed the recommendation to put more weight in the measurement of outcomes and impacts and wondered whether MfDR is only applied when donor money is involved. IED staff clarified that many MfDR initiatives were undertaken by many countries also when no donor money was involved.

3. Questions were raised about how far Management should look at post-project completion outcome monitoring. IED staff stressed that while there was strong emphasis on outcomes and results, it took time before they were both realized. They emphasized that there needs to be an early indication that a particular project is headed the right way. SPD concurred that while measurement of outcomes is important, measuring outputs remains vital as they are a critical part of the results chain. Questions were also raised about monitoring results for countries with fragile and conflict-affected situations, and whether different sets of criteria should be applied according to the country context. DEC members noted that it would be untenable to maintain the same standards while allowing "carve-outs" for certain considerations for resource allocation, for example beyond performance-based allocation. IED emphasized that objectives and expectations should be set realistically at the onset.

Project classification

4. On project classification, DEC members asked whether there were efforts to ensure consistency in project classification within ADB. SPD staff indicated that while the margin of error was limited for sector classification, it was more difficult to ensure the consistency in thematic classification. Especially the classification of projects supporting private sector development was more problematic without an ADB-wide focal point for this theme. Responding

to Board concerns, SPD indicated that a more rigorous project classification system and an appropriate monitoring arrangement were being developed for private sector projects for application from January 2012.

5. DEC inquired why a project could only be classified under a maximum of four themes. SPD staff explained that before the present system was adopted in 2008, projects were classified under a maximum of three themes. The decision to increase it to a maximum of four themes was made after lengthy discussions among staff given that projects were often designed to achieve several crosscutting goals. While there was no scientific basis behind choosing four as the maximum number of themes, staff felt that this would adequately respond to ADB's emphasis on promoting crosscutting priorities through operations.

6. DEC members inquired about overlaps in reporting project classifications and asked IED to clarify the repercussions of double counting projects classified under various themes. SPD staff shared the World Bank's practice of apportioning parts of the project that support a particular theme, for example the proportion of its contribution to economic growth and another proportion to the environment. SPD staff noted that this approach posed challenges since a single project may address various themes simultaneously. The example of a wind-power project involving energy trade was mentioned, where it was neither possible nor desirable to apportion specific amounts of funding dedicated to the two themes. After much debate, ADB had decided not to follow the World Bank's approach because the overall goal was to measure progress in increasing the overall operations that support various thematic priorities. The meeting agreed that the issue of possible double counting is best addressed through proper disclosure and explanation of ADB's methodology for classifying projects.

Rating system

7. Four scales were used to determine project success: highly successful, successful, partly successful and unsuccessful. DEC members sought clarification on the use of these scales. IED staff clarified that the scales were a mix of quantitative and qualitative measures. In the case of the SES on MfDR which was a process evaluation, IED staff clarified that in this process evaluation, IED examined three criteria (relevance, responsiveness and results orientation), rather than the four standard criteria (relevance, effectiveness, efficiency, and sustainability). IED maintained that process evaluations at times may appear subjective, but that the whole purpose of identifying specific criteria and sub-criteria was to keep the evaluator's subjectivity in check.

Sustainability

8. Similar to concerns on the timeframe of monitoring results, DEC members asked what was a reasonable period for which one could track the sustainability of a particular project. While some DEC members noted that this issue was best addressed by developing a DMC's own capacity, some also questioned how far ADB should devote resources to this issue. While acknowledging the need for measuring sustainability, members also stressed that IED should advise how this could be operationalized by the DMCs. IED staff indicated that the common reference point used was the timeframe of the economic life of an operation. It was noted that IED was considering the preparation of an annual sustainability assessment to examine these issues.

Capacity development

9. On developing DMC capacity for MfDR, DEC members raised concerns about the lack of clarity about ADB's approach to capacity development in general. SPD staff stated that capacity building needed long-term engagement with a partner institution. Staff stressed that the key was to achieve a more focused, selective country program so that ADB could engage with the same institution over a considerably long term period and help develop the institution's capacity to manage policies and investments. This may be done through a technical assistance (TA) grant, as a component of a lending project, or combination of the two.

Other concerns

10. DEC members raised other concerns such as the paucity of baseline data, particularly in sectors which demanded immediate and critical support. In these instances, Management and IED were urged to be creative in making greater use of available qualitative and quantitative assessments. Inquiries were also made pertaining to the costs and benefits of the MfDR initiative.

II. Special Evaluation Study: ADF Operations

11. IED indicated that the report provided an evaluation of ADB's past record with regard to ADF's operations, which should be looked at within the context of rapid change and complex challenges in many ADF countries.

Sectors and areas of focus

12. DEC members inquired what could be done by ADB's projects and programs to improve performance in supporting good governance, as some thought this was not clear from the report. With regard to the finding that governance continues to be a major challenge, a DEC member questioned the basis for that finding. He was of the view that IED, in looking at public sector management, had considered governance as a separate sector, whereas governance was a cross-cutting theme which affected every project. He opined that the report did not do justice to what ADB was doing in the area of governance. IED staff explained that there were concrete project ratings for public sector management, while IED did not conduct governance ratings other than assessments under CAPEs and CAPE assessments showed that this was an issue. The member welcomed IED's separate evaluation on governance which has started in 2011. The member also requested that Management share a copy of the draft ongoing strategic review on governance.

13. IED staff indicated that governance was related to institutional performance and many of the ADF countries tended to have lower capacity than OCR countries. In this respect, other methods might be needed to strengthen institutional performance. IED staff noted that looking at all the CAPEs for various ADF countries, regardless of whether blend or ADF-only, there was a pattern. Of the following elements: (i) sustainable growth, (ii) inclusive social development, and (iii) good governance, the third pillar of good governance performed less well according to IED's findings. And this was linked to lack of progress on policy and institutional reforms. IED found that often there was no concrete buy-in from government to any institutional changes needed to improve the efficiency and effectiveness of institutional performance.

14. DEC members agreed with the finding that better connectivity within and across sectors was needed. A DEC member highlighted the differences between ADF VIII and ADF IX in terms

of the substantial increase in allocation to energy and transport, and the decrease in education. He noted that the allocation remained fairly similar in water and sanitation, and in public sector management and finance. Furthermore, while ADF IX gave the latter sectors a high priority, this was not the case with ADF X. The member was of the opinion that ADB should have a larger say in determining the sectors for allocating resources. This was particularly so since ADB had the field experience and knowledge, and has been continuously interacting with the governments of the borrowing countries. The member noted that ADB should place regional integration and cooperation as a priority area only after an evaluation and assessment of the performance to date in this area.

15. With regard to the report's second recommendation, namely increased focus on education, rural infrastructure, water sanitation, and environment, DEC inquired whether, given the limited resources, a corresponding reduction in interventions in other sectors would be required. IED indicated that the report suggested certain areas that should receive increased attention for greater effectiveness, such as non-income Millennium Development Goals (MDGs) and TA. IED agreed that the report did not specifically state which sectors or areas should receive less resources if the ADF pool remained the same or declined.

Sustainability

16. DEC members agreed with the findings on sustainability but some members considered the suggestions in the report were not specific enough. DEC members recognized that government ownership and incentives were critical for the sustainability of ADF-supported policy reforms. In this respect, some DEC members considered that policy reform projects and programs should be supported by lending modalities rather than grants. Grants may result in disincentives due to a lack of ownership from the government in carrying out necessary reforms and ultimately undermine the sustainability of the reform because there is no need for repayment.

Performance

17. IED staff noted that compared to earlier decades, ADF operations have improved, especially on efficiency and relevance, but less in terms of effectiveness and sustainability. They noted the difficulty in measurements especially with regard to sustainability, indicating that it was harder to measure outcomes and results compared to inputs and outputs, and that further work was required on the results side.

18. DEC members commented on the impact of the poor performance of ADF operations in Pakistan and how this affected overall ADF performance, and questioned whether the appropriate measurement methodology was being applied for Pakistan and other fragile and conflict-affected countries. IED staff noted that Pakistan is a blend country and that the same criteria have been used for all countries to make the evaluation uniform. IED noted that the performance of ADF-only and blend countries is the same if Pakistan is not considered.

19. IED staff indicated that the report, drawing on the evidence, reflected a positive track record of performance showing reasonable returns, and proposed some improvements in areas where more was required in light of the growing needs of the region.

Inclusive growth and achievement of Millennium Development Goals

20. With regard to the limited progress in achieving non-income MDGs in DMCs and

growing inequalities, DEC noted that the report indicated that ADB should increase its programming on non-income MDGs, such as education and water and sanitation.

21. IED staff noted that ADB appears to have contributed to growth in ADF countries, but progress has been limited in terms of inclusive growth, and this was an area for future focus. Findings from Bhutan, Lao PDR, Cambodia, Viet Nam, and other countries showed that where efforts on infrastructure were linked, for example with efforts in education and health, results with regard to effectiveness, sustainability and inclusive growth were better.

22. DEC members agreed with the assessment that ADF must contribute more to the achievement of non-income MDGs and the reduction of growing inequalities in a growing number of countries. Some DEC members supported the use of ADF resources to enhance governance, public management and capacity development because they were the critical pillars for inclusive growth. Some members suggested this should be further discussed as this was an important issue for some ADF donor countries.

Technical Assistance

23. DEC noted Management's agreement on the recommendation to strengthen ADF operations through adequate allocation of technical assistance (TA) resources to improve project design and country institutional capacity. TA and capacity development were important, and there was a strong correlation between project success and adequate TA. IED staff clarified that the report also called for continuous strengthening of TA performance.

24. A DEC member noted the linkage between TA and sustainability, governance, commitment to a budget process, and long-term involvement of ADB and other donors. He asked about ADB's openness to cooperating with other donors, and to share lessons and learn from others. Another DEC member noted that in supporting capacity building, it was important to provide TA in the local language.

25. DEC noted IED's finding that projects which have sufficient project preparatory TA (PPTA) performed better than projects without PPTA. It was of the view that good project design and good project preparation led to better outcomes, but considered that TA was not the only way to achieve this. IED staff agreed that PPTA was not the only driving factor but its analysis showed it was one of the key contributors. IED noted that a number of other project design issues were identified that could be addressed through other measures, such as appropriate costing and broader stakeholder consultations. IED found that many projects suffered from a lack of proper design or awareness of country conditions. One possible lesson suggested was the need for close involvement of resident missions at the project design stage.

26. With regard to room for improvement in the performance of ADB's TA, IED staff clarified that this was a finding of many CAPEs. DEC suggested that IED could look at TAs in a more holistic way; IED staff agreed that it was important to review how TA instruments were being used. IED staff clarified that after having reviewed projects in the field and having talked to different executing and implementing agencies, at least in four of the five case study countries, there was a consistent message that there was no sustainable mechanism to institutionalize the knowledge imparted by a TA. Often ownership of project-supported TA did not rest with the implementing or the executing agency. IED suggested that ADB needed to look at how it could handle TA differently, perhaps from a more strategic perspective, looking at the critical gaps and how to strengthen institutions.

Capacity development

27. IED staff noted that progress could be made in improving effectiveness and sustainability, including through capacity building. IED staff suggested the preparation of long-term sector-based strategies for capacity development in key institutions that ADB was dealing with, in coordination with other donors. TA, together with policy dialogue and other mechanisms, would support the implementation of such a strategy.

28. A DEC member noted the difference between capacity building and capacity development which involved long-term involvement, and suggested ADB focus more on the latter.

Program lending

29. A DEC member noted that the report indicated that a considerable proportion of program loans had been ineffective, and the reasons thereof. He noted that the timing of the introduction of policy changes was important. Whether the timing was suitable and favorable needed to be considered within the country context.

30. A DEC member expressed concern over a finding in the report on the usefulness and the priority for program loans or policy-based operations. It indicated that although the success rate of policy-based loans or program loans improved with 90 per cent of program policy conditions technically met, many of them failed to produce adequate levels of meaningful outputs in terms of actual reform.

31. IED staff agreed that the finding on program lending was surprising with 43 per cent of program loans rated as not effective. Elements required for success included (i) strong political support, (ii) adequate problem analysis and (iii) a robust set of policy actions that address binding constraints. IED found that in cases of failure there was no government buy-in for significant reforms, or there were shifts in government commitment due to political changes. A DEC member indicated that, in his view, project design should be made in such a way that it was not affected by changes in government.

32. IED staff explained that analysis in a number of studies, including the ones on policy-based lending, had identified a number of causes for failure of program loan effectiveness. One of the causes was lack of adequate problem analysis. Political pressure for budget support often overlooked a certain lack of commitment on the government's part. The result was a lot of conditions that appeared to be meaningful but that ultimately did not translate into meaningful outputs or reform outcomes. On the design side, to make a program loan more resistant to political changes, various IED studies had recommended more policy dialogue with other stakeholders, not only current government but possibly parliamentary commissions, etc. This may ensure that successor governments also had buy-in for program loans.

ADF Support

33. With regard to donor support, DEC noted a reduction in reflows over the coming years and inquired about future financing plan for ADF. Some DEC members suggested that the recommendation be rephrased in a more general fashion, highlighting the need to increase the overall size of the ADF but without specifying the source of funding and singling out donor funding.

34. IED indicated that IED was not taking a view on the effectiveness of ADF based on the source of financing. The report supported additional financing if effectiveness and performance could be strengthened. The staff agreed that there could be ambiguity in the interpretation of IED's recommendation, and clarified that the sense of the recommendation was to continue ADF financing from donors and other sources to maintain current level of ADF resources in the face of the expected decline of the reflows. This was important to reduce both income and non-income poverty and enable ADF countries to better cope with vulnerabilities. IED would change the first recommendation in the report accordingly.

35. With regard to the Special Crisis Facility, a DEC member highlighted the importance of taking into consideration the needs of ADF countries.

36. DEC noted that donor contributions have declined since ADF V, and in the context of the next ADF donors' meetings which would decide the framework for ADF, asked if the framework should be redefined in a different context rather than just of the donors. SPD explained that in previous rounds of ADF replenishment, donors and ADB had discussed the possibility of a self-sustained ADF. The staff noted that the current crisis, unfortunately, was affecting many donors and the prospects for increased contributions were affected by this. SPD reiterated that the study clearly showed that there had been constant improvement in performance in ADF. There were certain areas needing improvement, but overall, ADF was performing reasonably well. ADF operations gave good value for money in terms of its impact on poverty in Asia-Pacific. Therefore, ADB would like to see an ADF of larger size. The sources of possible funding would be discussed between Management and donors in the upcoming ADF negotiations in Dhaka in December.

Regional Departments

37. Director Generals, Pacific, Central and West Asia and South Asia Regional Departments provided their views on the SES' recommendations, responded to questions from DEC members, and provided examples specific to their respective regions of progress in various areas, sectors and countries.

38. Regional department staff appreciated the value of IED's evaluations and the lessons that can be extracted from them, and overall supported IED's recommendations. It was noted that selectivity is essential to avoid overambitious goals in too many sectors, as well as the focus on country context and on improving sustainability. They also agreed that the quality of TAs could be looked at as a separate issue. With regard to the methodology used to assess program loans, it was suggested that IED could look into this.

Content and format of the report

39. A DEC member expressed dissatisfaction with the report because in his view some formulations were ambiguous and not always accurate, and provided examples from the report that in his opinion should have been expressed more accurately. He also considered that the Executive Summary could have summarized the findings, lessons, issues, and recommendations better to help the reader and to help Management to respond. The DEC member also noted that the report aimed to offer recommendations for donors and for ADB Management; he considered that the ADB Board should have been included.

40. Some inconsistencies were noted between IED and Management with respect to the number of rural water supply and sanitation projects delivered through ADF; IED indicated that

these would be corrected, and that comments received on clarity and presentation of the report would be taken into consideration.

Conclusion

41. The DEC welcomed the Special Evaluation Study on Managing for Development Results and expressed satisfaction with ADB's pursuit of MfDR since 1999. DEC recognized ADB's role as a pioneer in preparing and publicly presenting its Development Effectiveness Review. Members welcomed IED's emphasis on the importance of learning the lessons from such evaluation studies so that ADB's performance could improve over time. Some members mentioned the need for having some limit on how far in time one should go to study sustainability. Members emphasized the need for accurate project classification. Some members also encouraged IED to study the cost and benefit of MfDR.

42. DEC welcomed the Special Evaluation Study on the Asian Development Fund Operations for the period 2001 to 2010. It endorsed IED's recommendation that ADB seek increased funding for ADF operations but without specifying the source of funding and singling out donor funding, particularly for ADF-only countries to further reduce poverty, income and non-income related, and enable them to better cope with vulnerabilities.

43. DEC noted that ADF has improved its operations not only over time but particularly in the last decade. DEC appreciated the improved ratings of projects approved during ADF IX, with more than two-thirds of the case study projects expected to be successful or highly successful. Nevertheless, members noted that while ADB has done well in terms of relevance and efficiency, there was considerable room for improvement as far as effectiveness and sustainability was concerned.

44. Similarly, the lack of progress on the non-income Millennium Development Goals underscored the need for focusing on inclusive growth. In this context, the need for extra resources under ADF and where such resources would come from given the declining reflows from a move from loans to grants, was a concern of the DEC members.

45. On technical assistance, members emphasized the need for sector-based strategies as well as the need to strengthen ADF operations through adequate allocation of TA resources to improve project design and country institutional capacity.

46. Members noted that ADB was the first multilateral development bank to adopt in 1995 a special policy on governance with focus on accountability, participation, predictability and transparency followed by a policy of anticorruption in 1998 and the launch of the Governance and Anti-Corruption Action Plan (GACAP-II) in 2006. DEC encouraged staff to make further progress on the governance issue as they believed that governance was key to achieving the MDGs.