

## DEVELOPMENT EFFECTIVENESS COMMITTEE

### Chair's Summary of the Committee Discussion on 16 November 2010

#### I. Special Evaluation Study on Post-Completion Sustainability of Asian Development Bank-Assisted Projects (DOC.IN.270-10)

1. The special evaluation study (SES) emphasized sustainability as a key element in maximizing the development effectiveness of ADB operations. The SES recognized the factors that contributed to the positive sustainability ratings of about 65% of the 491 project completion reports (PCRs) assessed for projects in 2001-2009, including pricing and financial viability; operations and maintenance (O&M) policies and financing; government commitment for reforms; and absence of policy reversals. The SES attributed *unlikely sustainable* ratings of some projects to high proportion of nonrevenue-earning projects, negative assessments of policy and regulatory environment, and O&M policies and financing.

2. Director General, IED noted Management's general agreement to the recommendations of the SES, including strengthening sustainability risk mitigation measures at all stages of the project life-cycle (even more so during the PCR stage) and post-completion monitoring of outcomes and impact, and its sustainability. However, Management does not agree to the recommendation for alternative and innovative assistance modalities, as Management believes that existing operational modalities are sufficient to respond to systemic sector, policy, operational and institutional issues that may hamper sustainability. IED affirmed its recommendation noting that such an approach is necessary to enhance sustainability.

3. DEC members sought clarification on the differences in sustainability evaluation between ADB and the World Bank, and suggested for IED to have a system that evaluates sustainability across sectors. Director, IED1 explained that ADB's approach is not very different from that of the World Bank, particularly on evaluation of outputs. However, the World Bank's approach is directed towards assessment of risks to development outcomes, while ADB looks at sustainability in terms of the likelihood of continuity of project/program benefits during their operating lives.

4. DEC members raised concerns on the huge amount, in monetary terms, involved in projects rated as less likely or unsustainable, and noted the SES's findings on inadequate financial due diligence, design and monitoring frameworks (DMFs), and risk management, and inquired as to what ADB could do to address these in terms of monitoring sustainability throughout the project cycle and beyond post-completion stage. Deputy Director General, SPD mentioned some of the ongoing initiatives to strengthen post-completion sustainability. At country and sector levels, there are risk assessments that identify sustainability risks and mitigation measures. At the project level, the streamlined business process incorporates risks assessments, quality assurance and various internal measures to ensure financial due diligence. Midterm review exercises are also being strengthened to better assess outputs and outcomes. Director General, CWRD mentioned that impact evaluation activities are being streamlined at the early stages of project processing. Post-completion sustainability is being monitored through updates to sector roadmaps. Staff, COSO mentioned ongoing efforts to support capacity of regional departments in designing DMFs. Director, RSGP noted that financial due diligence is a broader issue that should be addressed taking into consideration constraints in staff resources.

5. DEC members asked for any correlation between sustainability ratings of completed projects and delegation of project implementation to resident missions (RMs). Director, IED1 explained that the SES found that sustainability was driven by country and sector circumstances. He noted though that RMs can contribute to better post-completion monitoring and knowledge sharing on sustainability aspects.

6. DEC members inquired on how government involvement and ownership could be achieved in monitoring post-completion sustainability, and on the feasibility of joint evaluation with DMCs. Deputy Director General, SPD mentioned that building government capacity to monitor projects is a priority and there is an ADB-led MfDR community of practice and ongoing capacity building technical assistance.

7. DEC members requested a brief assessment on post-completion sustainability of private sector operations. Director General, IED emphasized that ADB is still in the process of building up its private sector portfolio, yet the Private Sector Operations Department already appears to have a system of monitoring financial sustainability throughout the life of the project. Director, IED1 noted that private sector projects are revenue-generating, with profit as primary incentive to sustainability.

## **Conclusions**

8. DEC members noted that PCR sustainability ratings had not shown any noticeable trend during the period 2001-2009. DEC urged staff to have closer look at those sectors where the sustainability rating has been poor.

9. The difference in assessing sustainability between ADB and other multilateral institutions was noted and DEC was informed that the Evaluation Cooperation Group is working on the correct methodological approach towards sustainability.

10. Members emphasized the need for post-completion monitoring on a sample basis to monitor how the likelihood of project outcomes sustainability is changing and if any corrective actions could be taken.

11. DEC welcomed the suggestion about having sector-specific annual reports on sustainability on the basis of sample information in SESs of particular sectors that IED does on a periodic basis.

12. Members emphasized the importance of incorporating life-cycle costs for physical projects like roads and water supply, increasing the use of build-operate-and-transfer mechanism for ensuring operations and maintenance of such projects, and also use of MFF for this purpose.

13. With increasing emphasis on private sector participation, members hoped that future sustainability studies would also include sustainability of outcomes of private sector operations.

## **II. Special Evaluation Study on Water Policy and Related Operations (DOC.IN.274-10)**

14. The SES rated ADB's 2001 Water Policy as relevant and consistent with ADB's corporate strategy and DMCs' national priorities, and one which supported international consensus on integrated water resources management and the millennium development goals

related to water supply and sanitation. However, Director, IED1 mentioned that sustainability problems and implementation delays were noted in the completed water sector projects. Management generally agreed with the SES's recommendations.

15. DEC members expressed concern on the SES's findings that ADB has failed to apply past lessons and experience to subsequent projects for integrated water resources management. DEC noted that there may be merit in reviewing and updating the 2001 Water Policy. In response to the SES recommendation for further implementation of the water policy, Lead Professional (Water Resources Management) noted that a draft water operational framework for 2011-2020 is being prepared. As indicated in the 2001 Water Policy, the operational framework will recognize the governance and operational differences of water as a resource and as a service.

16. DEC members noted the SES's recommendation to increase assistance for wastewater treatment and sanitation. Director General, IED noted that wastewater treatment and sanitation components had been small and could become marginal as water supply and sanitation (WSS) projects progressed. He further emphasized that it was important to enhance the size of sanitation component in WSS projects to realize the stated health benefits in WSS projects. Staff, RSID mentioned that efforts in addressing wastewater treatment and sanitation issues are being done through technical assistance and regional technical assistance.

17. DEC noted that the 2001 Water Policy does not provide concrete guidance on which subsector ADB should focus on, and also noted the importance of measures for climate-proofing and addressing other issues related to climate change. Director, IED1 viewed that focus on a subsector should be based on DMC demands, and should be incorporated in the new water operational framework. Lead Professional (Water Resources Management) pointed out the strong influence of ADB in policy dialogues with governments, and also noted that strong government commitment to various ADB initiatives is evident.

18. DEC noted the SES's suggestion for increased public and private sector participation through mixed assistance modalities. Some DEC members also noted that such an approach may require addressing resource issues like the skills mix in the Bank for that area. Director General, IED highlighted the importance of making water sector assistance attractive to the private sector. Staff, RSID noted that public-private partnerships may face limitations due to political problems, and appropriateness of private sector participation would depend on what suits the requirements and demands of the economic and political situations of DMCs.

19. DEC members inquired further on the SES's finding on regional cooperation and integration (RCI). Director, IED1 mentioned that RCI for water sector may be difficult due to a number of sensitive issues across borders. He noted ADB's cautionary approach of keeping DMCs engaged through regional technical assistance and at the same time being mindful of issues and various sensitivities.

20. DEC reiterated its earlier position for ADB to remain engaged in development of large hydropower projects. Director General, IED noted that ADB's approach on large hydropower is cautious due to issues related to environmental sustainability and social protection. At the same time, ADB's value-addition to the sector possibly existed most in these very areas of ensuring environmental sustainability and social protection, hence the importance for ADB to remain engaged in large hydropower.

## Conclusions

21. DEC recognized that with the population of DMCs expected to reach 3.7 billion by end of 2010, water was going to be a major resource requirement and service for the region.

22. Members looked forward to seeing the water operational framework for 2011-2020 in the first quarter of 2011. They emphasized the need for reaching the target of \$2 billion assistance annually, as per 2005 review; the need for greater progress in water-related millennium development goals, particularly sanitation; and urged staff to have closer look at subsectors with poor success rates and sustainability.

23. Members noted that after issuance of the policy in 2005, the level of compliance with covenants has increased greatly, and going forward expected the success rate as well as sustainability aspects of water-related projects to improve once the water operational framework became available in 2011.



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