

MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION STUDY ON POST-COMPLETION SUSTAINABILITY OF ASIAN DEVELOPMENT BANK-ASSISTED PROJECTS

On 12 November 2010, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate the findings of the study and agree that project sustainability is a critical issue in many of our developing member countries (DMCs) and several of our core sectors. The study highlights that outcomes achieved by over one-third of ADB-supported projects and programs are judged less likely or unlikely to be sustainable based on projections at completion. While the study is based on desk review work, we find the analysis of key success and failure factors on sustainability useful.

2. We appreciate that the report calls for a greater focus on project outcomes because of their interlinkage with project sustainability. As noted in the study, ADB has increased its attention to project and sector outcomes over the past years by more systematically applying managing for development results (MfDR) approaches at country, sector, and project levels. At project level, we have improved the application of the design and monitoring frameworks (DMFs), which capture intended results and associated risks. To complement DMFs, ADB has introduced *Risk Assessment and Risk Management Plans* as a mandatory document linked to the project document under the 2010 streamlined business processes. At country and sector levels, the new 2010 guidelines on country and sector results guide staff to (i) clarify sector outcomes to which our interventions intend to contribute, and (ii) monitor and report progress toward such outcomes systematically. We have also strengthened our support for capacity development at DMC level on monitoring and evaluation.

II. Comments on Specific Recommendations

Recommendation 1: Strengthen ADB's approach to identifying and mitigating risks to project sustainability during country and sector assistance programming.

(i) Assess public expenditures, revenues, and borrowing jointly with client governments, and other development partners and stakeholders as part of the public financial management under country risk assessments, taking also into account policies and practices for pricing, cost recovery and financing options and provisions.

3. While we agree with this recommendation in principle, we note that ADB already has several instruments for such assessments. Country risk assessments and risk management plans are mandatory inputs to the country partnership strategies (CPS). Required under ADB's second governance and anticorruption action plan (GACAP II) of 2006, these plans include assessments

on public financial management, procurement and corruption risks at national and priority sector levels.

4. There is greater awareness among regional departments (RDs) on the importance of this issue. RDs will strive to improve the quality of the risk assessments consistent with the study's findings. Our Regional and Sustainable Development Department (RSDD) will continue to support RDs in ensuring the quality of the assessments by developing better tools and methodologies, and through training programs. RSDD, in consultation with the communities of practice (CoPs), is also developing guidance notes on sector risk assessments to promote more effective risk management in ADB operations. RDs will continue to work closely with other development partners on the risk assessments.

(ii) Consider alternative and innovative assistance modalities to improve sector policies, institutions, and asset management systems to ensure sustainability of ADB-assisted projects and programs.

5. We do not agree with this recommendation. We believe that the existing operational modalities are sufficient to respond to systemic sector, policy, operational and institutional issues hampering project and program sustainability. We do not agree that a new modality is needed for ADB to finance budget support for financing fiscal deficits to enhance continuity of sector outputs and outcomes. This is not sustainable. ADB has been increasingly promoting the concept of special funds within the countries to finance operations and maintenance (O&M). Several models have been introduced across the region, and best practices could be disseminated through the CoPs. We are also using the multitranche financing facility (MFF) to blend physical investment financing with policy reform, institutional development, and O&M monitoring.

6. We would like to note that budget allocation for O&M can be affected by macroeconomic imbalances fueled by external shocks, and political instabilities. This situation affects projects but cannot be handled by ADB alone. We will continue to work with the IMF and the governments on the macroeconomic stance, and assess the risks better during project processing and implementation.

Recommendation 2: Pay more attention to risks to sustainability of outputs and outcomes and their mitigation during project preparation and implementation.

(i) Strengthen risk management practices during project preparation by identifying the risks to achievement of project outcomes including an assessment of fiscal implications and financing provisions (in addition to risks in project implementation) and how they will be mitigated at different stages of the project cycle.

7. We agree and confirm that all RDs are strengthening risk assessment and management during project preparation and implementation. The new reporting format for the report and recommendation of the President (RRP)—introduced as part of the 2010 streamlined business processes—includes a new mandatory *Risk Assessment and Risk Management Plan*. The plan complements the risks identified at various levels of results in the DMF. We recognize the need

to continue strengthening staff skills in preparing and monitoring the risk assessment and risk management plan. We will work with IED, our Central Operations Services Office (COSO), and CoPs to design and implement appropriate staff training, and if necessary, improve the DMF guidelines.

(ii) Review risks to the sustainability of project outcomes during implementation (e.g., midterm) and at completion of project implementation, and identify necessary mitigating and monitoring measures by borrowers and/or recipients and ADB to improve post-completion sustainability of project outputs and outcomes.

8. We agree. The midterm review missions are mandated to update the risk profile of projects and their mitigation measures. The quality of midterm review missions—including reporting on the achievability of project outcomes—will be improved following the recommendations by the Working Group on Project Implementation. A new project performance report (PPR) system with more objective project-at-risk categorization criteria will be introduced shortly. The new system reports progress on baseline and target values and timelines of delivering intended outputs and outcome as shown in the DMF.

Recommendation 3: Undertake post-completion monitoring of selected projects and programs with emphasis on outcomes, sustainability, impact, and monitoring arrangements.

(i) Conduct post-completion monitoring in selected developing member countries on a pilot basis and jointly with borrowers and/or recipients, where possible.

9. We agree. However, to clarify, this recommendation is different from IED's recommendation on post-completion monitoring in its Annual Report on 2007 Portfolio Performance (this 2007 Annual Report recommendation was repeated in IED's Annual Report on 2009 Portfolio Performance), which had called for establishment of a development results monitoring system for three to five years after project completion. We had not agreed then given the significant staff and budgetary implications of such a move.

10. We have already begun adopting and implementing the following post-completion monitoring approaches and actions, which we believe are consistent with the recommendation above. These approaches and actions include (i) monitoring of the outcomes of selected projects and using the findings to develop and update sector roadmaps and sector results frameworks; (ii) undertaking of impact evaluations in some RDs; (iii) launching of a program to mainstream several ongoing RD initiatives. This program includes a proposed TA of \$1 million (expected to be approved later this month) to improve measurement of the outcomes and impacts of ADB support; and (iv) post-completion monitoring of program loans to selected countries with respect to sustainability of policy reforms. Given the above steps, we do not believe the \$3 million TA referred to in IED's 2007 report (and reiterated again in this Post-Completion Sustainability Report) would be necessary.

(ii) Promote awareness of project sustainability within DMCs and ADB, including a forum where DMCs can present evidence on the sustainability of ADB-assisted projects post-completion.

11. We agree. We consider the sustainability of project outcomes as an integral part of ADB's MfDR mandate and are supporting DMCs to improve their management systems—including planning, budgeting, monitoring and evaluation—to sustain development outcomes. Collection and presentation of evidence on sustainability would depend on a sound methodology for assessing sustainability. We seek IED's support in improving the evaluation methodology for assessing sustainability, and in developing related skills for ADB staff and DMCs. We appreciate and accept IED's offer to prepare an annual sustainability assessment report, as given in the study. Given its independence and experience with ex-post evaluation, IED is best positioned to conduct these assessments.