

**ASIAN DEVELOPMENT BANK
Operations Evaluation Department**

SPECIAL EVALUATION STUDY

ON

**LONG-TERM STRATEGIC FRAMEWORK:
LESSONS FROM IMPLEMENTATION (2001–2006)**

In this electronic file, the report is followed by Management's response and the Board of Directors' Development Effectiveness Committee (DEC) Chair's summary of a discussion of the report by DEC.



Evaluation Study

Reference Number: SST: REG 2007-38
Special Evaluation Study
December 2007

Long-Term Strategic Framework: Lessons from Implementation (2001–2006)

Operations Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AFC	–	Asian financial crisis
ANR	–	agriculture and natural resources
ASEAN	–	Association of Southeast Asian Nations
CAPE	–	country assistance program evaluation
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy
CSP	–	country strategy and program
DEC	–	Development Effectiveness Committee
DMC	–	developing member country
EPRS	–	Enhanced Poverty Reduction Strategy
GACAP	–	Governance and Anticorruption Action Plan
GMS	–	Greater Mekong Subregion
HIV/AIDS	–	human immunodeficiency virus/ acquired immunodeficiency syndrome
Lao PDR	–	Lao People's Democratic Republic
LEMPP	–	law, economic management, and public policy
LTA	–	loan and technical assistance approval (system)
LTSF	–	Long-Term Strategic Framework
MDG	–	Millennium Development Goal
MfDR	–	managing for development results
MIC	–	middle-income country
MTS	–	medium-term strategy
MTSF	–	Medium-Term Strategic Framework
OCR	–	ordinary capital resources
OED	–	Operations Evaluation Department
OREI	–	Office for Regional Economic Integration
PPIS	–	project processing information system
PRC	–	People's Republic of China
PRS	–	Poverty Reduction Strategy
PSOD	–	Private Sector Operations Department
RCSP	–	Regional or Subregional Cooperation Strategy and Program
RRP	–	report and recommendation of the President
RSDD	–	Regional and Sustainable Development Department
SASEC	–	South Asia Subregional Economic Cooperation
SES	–	special evaluation study
TA	–	technical assistance

NOTE

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

Key Words

asian development bank long-term strategy evaluation, performance of adb strategic framework, managing for development results, evaluation of adb strategy projects programs operations impacts

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The guidelines formally adopted by the Operations Evaluation Department (OED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. John Weiss and Yukon Huang were international consultants. Carmencita Balbosa, Rafaelita Jamon, and Bing Villarante were the national consultants. To the knowledge of OED management, the people preparing this report had no conflict of interest.

SUPPLEMENTARY APPENDIXES (available upon request)

- A. Working Paper 1: Long-Term Strategic Framework's Relevance to Asia-Pacific's Changing Context
- B. Working Paper 2: Long-Term Strategic Framework's Focus on Sustainable Economic Growth
- C. Working Paper 3: Long-Term Strategic Framework's Focus on Inclusive Social Development
- D. Working Paper 4: Long-Term Strategic Framework's Focus on Governance
- E. Working Paper 5: Long-Term Strategic Framework's Focus on Private Sector Development
- F. Working Paper 6: Long-Term Strategic Framework's Focus on Regional Cooperation
- G. Working Paper 7: Long-Term Strategic Framework's Focus on Environmental Sustainability
- H. Working Paper 8: Long-Term Strategic Framework and Institutional Effectiveness

Attachments:	Management Response DEC Chair Summary
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EXECUTIVE SUMMARY

The Long-Term Strategic Framework (LTSF), prepared for 2001–2015, defines the Asian Development Bank's (ADB) three core strategic areas as sustainable economic growth, inclusive social development, and governance for effective policies and institutions; and three crosscutting themes as private sector development, regional cooperation, and environmental sustainability. It envisages implementation through three medium-term strategies (MTSs), each lasting for 5 years. The Poverty Reduction Strategy (PRS) and the LTSF were aligned with the international development goals, and the MTS I and MTS II with the subsequent Millennium Development Goals (MDGs). The LTSF period was designed to coincide with the MDG target of 2015. It outlines operating principles, modalities and organization, and human resources issues for implementing the strategic agenda.

The objectives of this evaluation study are to assess independently the achievements of the LTSF and its implementation during the MTS I and early years of the MTS II, and to identify lessons for future strategy formulation and operations. It is intended to provide feedback to the review and fine-tuning of the LTSF and related strategies. The study examines the LTSF's relevance, ADB's responsiveness to its strategic guidance, and its influence on ADB's positioning for results and achieving development effectiveness. However, since most of the ADB operations initiated after the formulation of the LTSF are still under implementation, it does not seek to assess their development effectiveness on the ground. Interim outputs of the evaluation study were provided to the Strategy and Policy Department as the study progressed.

Key Findings. The LTSF was prepared to move the poverty reduction agenda forward and was based on an understanding of the region's situation in 2000. However, the emphasis of the PRS is on pro-poor growth, and that of the LTSF on sustainable economic growth as well as poverty reduction. The subtlety of the sustainable economic growth concept, which was intended as an extension of pro-poor growth, has not been fully recognized in operations. The LTSF also recognizes that economic growth can lead to unequal income distribution, and it highlights the need for a sustainable and equitable pattern of growth. While recognizing the need to create an effective enabling environment for private sector development, it anticipates the more recent focus on inclusive growth, but widening income gaps have elevated the concern.

In terms of the MDGs, income poverty targets are currently on track in many developing member countries (DMCs), but extensive pockets of absolute poverty remain, especially in rural areas. Some non-income poverty targets for health, environment, water, and sanitation have not been met, particularly in least-developed countries. Urban poverty is also a rising problem in some DMCs. Fast-growing economies have also encountered expanding inequality as well. Graduating and graduated economies play important roles in regional cooperation. Such diversity in the region calls for a balanced and flexible approach that allows ADB to focus on the binding development constraints that each DMC faces in reducing poverty and inequality, and on opportunities for partnering with graduating and graduated economies in the region.

The first strategic area—**sustainable economic growth**—was to be supported by investments, policy support, and institutional strengthening in DMCs. The key subsectors under this core area are physical infrastructure, social infrastructure, urban development, rural development, and information and communications technology. Support for major subsectors was in line with key evidence on poverty reducing interventions and was relevant. Both before and during LTSF implementation (2001–2006), ADB's operational response and results in physical infrastructure provision were substantial, and ADB continues to have relative strength

in terms of experience and resources in the sector. However, the massive and rising demand for infrastructure financing in the region exceeds public resource supply, and expected private sector participation did not fully materialize owing to slow progress in improving the business enabling environment. The LTSF identifies improving urban management as a priority. Recent evaluations support the view that urban problems are complex and cannot always be addressed from a single-sector perspective, yet ADB's activity in urban areas has become diffuse. Similarly, the LTSF identifies rural development as a priority. Rural problems are also complex, needing a holistic perspective and manageable intervention designs. The LTSF's emphasis on urban and rural areas is broad and requires strategic clarity.

The second strategic area—**inclusive social development**—focuses on comprehensive programs that empower weaker groups in society. This is clearly in line with the needs of the region with its large vulnerable segment, including a substantial ageing population, a growing informal sector without life or health insurance, and increasing socially vulnerable migrants to cities. However, ADB's response has been relatively low key. A number of policies were developed, and staff resources were enhanced somewhat. Generally, direct social development projects that promote equity and empowerment are complex and difficult to implement, and many gaps exist in DMC baseline information on social development issues. DMCs are also reluctant to borrow ordinary capital resources for non-income generating projects, and there is limited availability of Asian Development Fund (ADF) financing for this purpose. It may have been more effective to focus on a few selected areas such as education, health, and related gender equality. Given its resource limitations and staff expertise, ADB may consider developing greater synergies with other development partners.

The last strategic area—**governance for effective policies and institutions**—is recognized as important by both the LTSF and the MTS I. The LTSF employs a comprehensive definition of governance that includes different aspects ranging from national and subnational level governance to corporate governance and capacity development to community involvement in decision making. However, areas wherein ADB interventions would have the greatest impact are not highlighted. Succeeding plans have emphasized the anticorruption aspects of good governance rather than the national, subnational, and sector level governance and institutional capacity building referred to by the LTSF as part of embedding good governance in the public sector, and those aspects included in the governance and public sector management thrust in the performance-based allocation system for ADF resources. ADB has provided assistance in the areas of good governance, for example, through legal and judicial system development; public sector reform; and anticorruption measures (that would improve the business enabling environment by protecting property rights, reducing transaction costs, and reducing opportunities for corruption). To a certain extent such efforts have become diffuse, which is partly due to the limited capacity of ADB to expand the governance agenda. Despite governance receiving emphasis in the LTSF and the disbursement of program loans to address broader governance issues, ADB's recent efforts have been aimed more at sector-level governance and anticorruption issues as they affect ADB's lending. ADB policy and operations need to address governance issues at the country level, as well as governance reforms at the sector level and governance risk mitigation at the project level.

The first crosscutting theme—**promoting the role of the private sector in development**—was considered central to the development process, and it was essential in responding to the region's increasingly complex development agenda. The LTSF provides strategic guidance for harnessing public sector and private sector synergies. It envisages that the country strategies and programs (CSPs) will act as the link between the public and private sector operations of ADB. However, ADB's institutional arrangements during the evaluation

period are considered only partly responsive to private sector development. The public-private partnerships (PPPs) promoted in the LTSF continue to present an underutilized way of catalyzing and mobilizing resources. Further efforts to build on opportunities and enhance the enabling environment for PPPs and the private sector in general would improve response to an area where ADB has already achieved results. During implementation of the LTSF, ADB has been partly responsive to the human and financial resource needs of the Private Sector Operations Department (PSOD). The synergy between public and private sector operations has not been strong, even though there are clear examples of the public sector's role in facilitating private sector development and strategic investments that will help further extend PSOD's reach within countries. PSOD's participation in the formulation of country strategies and the preparation of annual country business plans could have been further encouraged to ensure maximum synergy in ADB operations. The role of the resident missions could have been broader to adequately represent private sector operations. Only recently has ADB commenced nonsovereign operations. Achievements in this thematic area have been driven by the satisfactory performance of private sector operations and the partly satisfactory performance of public sector operations in private sector development.

The second crosscutting theme—**supporting regional cooperation and integration for development**—reflects both ADB's own charter and its regional cooperation policy of 1994, and the natural process of cooperation that has occurred in the region, with closer trade and investment ties between countries often emerging prior to formal agreements. Also, efforts to foster closer monetary cooperation through currency swap arrangements were one of the responses to the upheavals in financial markets caused by the Asian financial crisis of 1997. Given the rationale for ADB involvement and the continued strong interest among DMCs and graduated (nonborrowing) economies (e.g., Brunei, Malaysia, Thailand) in the region, the LTSF focus on regional cooperation has been and will remain highly relevant. Support to regional economic cooperation has evolved quite substantially in recent years, with huge potential for further growth. ADB should exploit such potential by joining with other development partners, graduated economies, the private sector, and newly emerging bilateral donors like the People's Republic of China. In addition to infrastructural development and trade facilitation, options open for ADB include cross-border public goods related to environmental protection and human resource development areas wherein hitherto only a few initiatives (mainly nonlending) have been taken up.

The third crosscutting theme—**addressing environmental sustainability**—is considered by the LTSF to be at the forefront of all development decision making and planning in DMCs and of all ADB initiatives. The LTSF advocates not only stopping but reversing the enormously costly degradation of and damage to the environment that have already occurred. However, the LTSF does not and the MTS I did not provide clear operational guidance on wider environmental issues, going beyond project-level compliance. Limited environment-area lending operations have materialized, due partly to DMCs' reluctance to borrow ordinary capital resources, partly to limited ADF resources, and partly to ADB's limited staff resources and efforts to promote investments in environment-related areas. While recent results have been encouraging, they have fallen short of potential achievements.

Lately, ADB has been encouraged to focus on energy and environment issues, given the importance of climate change problems, compatibility with ADB's energy sector work, and the win-win approach it entails for DMCs. However, as indicated in the LTSF, there are other grave and rising environmental concerns in the areas of water resources, land degradation, and air pollution. ADB operations could look for synergies both with other sector operations in addressing these environmental issues, and as part of regional cooperation programs

addressing public goods. This implies that environmental sustainability needs to assume strategic importance in ADB's development agenda. Therefore, environmental considerations need to be emphasized not only at the project level but also at the national level via the country partnership strategy (formerly CSP) process and at the regional level through regional cooperation initiatives.

The LTSF provides a set of operating principles to improve **institutional effectiveness**. The central theme is that activities should respond to DMCs' needs and that details are to be worked out at the country level in the CSPs. The operating principles advocate ensuring country leadership and ownership of the development agenda, taking a long-term approach to development assistance, enhancing strategic alliances and partnerships, and measuring developmental impact. Preparations for ADB's reorganization was already under way when the MTS I was introduced. The MTS I confirmed that ADB was to become more client focused and responsive to client needs through greater flexibility in structure, processes, and products. The new organizational structure, introduced in 2002, was expected to result in greater accountability to each DMC, thereby ensuring more efficient and effective service delivery to clients.

The LTSF incorporates the operating principle of measuring development impact at the DMC level. However, neither the LTSF nor the MTS I specifies a monitoring and evaluation framework for tracking implementation. They do not contain targets for monitoring or measuring performance toward overall strategy achievement at the corporate level. This is further exacerbated by a weak data management system. Some monitoring indicators are collected by ADB but are not widely reported (they are contained as an annex to the annual report on the Enhanced Poverty Reduction Strategy [EPRS]). Recently, at the corporate level, ADB management has indicated target project success rates for its lending (80%) and nonlending (70%) through the progress report on the EPRS.

One striking feature of ADB's institutional behavior is that there are multiple strategy documents such as the LTSF, PRS, EPRS, MTSSs, and related strategic statements. In addition, at the corporate level, there are planning directions, the 3-year rolling work program and budgetary frameworks; and at the country level, partnership strategies and business plans. These often seem to have created unintended confusion about the strategic hierarchy and difficulties in implementing them.

Corporate aspirations should accompany required resources. The LTSF anticipates that delivering the agenda without adequate internal resources, both staffing and financial, would have an adverse impact on the quality of the institution's activities and its development impact, and would ultimately constrain DMCs' development in general and poverty reduction in particular. Although the MTS I and the LTSF clearly highlight the need to invest in human resources, the response has been modest. While some new subject and sector specialists were recruited to ADB, and staff numbers grew modestly in response to the priorities of the LTSF, it appears that the fragmentation of specialist skills across departments following reorganization in 2002 has prevented buildup of a critical mass of professional competence in the new organizational units. This limitation of staff resources has been one of the key constraints affecting progress of the LTSF agenda (for example, in the areas of inclusive social development and private sector operations).

In terms of a significant shift in lending activities and behavior at ADB since the LTSF, results have been limited. The LTSF's sustainable economic growth has been the principal area of ADB lending, with the lending share of physical infrastructure rising to over half of total loan

value between 2001 and 2006. Physical infrastructure also continues to be an area of core competency for ADB. This means that there is no evidence of a balanced shift in resources toward all the strategic areas and crosscutting themes of the LTSF.

More recently, the MTS II prioritizes sectors for ADB operations, and its set of priorities largely reflects actual practice rather than setting a new strategic direction. Although there has been only a modest change in the composition of the loan portfolio after the LTSF, there is evidence that the conduct of business in operations is consistent with the LTSF's operating principles and its strategic direction, for example closer alignment with DMC priorities, more concern with poverty and environmental impacts, more emphasis on private sector involvement, and more stress on governance. The country focus has been successfully embedded in operations, as have some of the key principles on poverty and growth.

The MTS I described the characteristics and needs of DMCs through a typology of very low-, low-, and middle-income countries. It also stressed that selectivity must be determined at the country level through the CSP process. The MTS II introduced selectivity through core operational sectors, and the resource allocation patterns over the LTSF period to date reflect the operational sector selectivity introduced in the MTS II. ADB's core competencies are relatively high in the physical infrastructure sectors compared with the nonphysical infrastructure sectors, but operational activities in terms of resource allocation and the MTS II priority sectors are not always consistent with DMC demands and the LTSF's strategic scope. All of these criteria and considerations are mentioned in the LTSF and the MTS I, but the emphasis on country-determined selectivity in the MTS I and sector selectivity in the MTS II was a significant strategic shift in terms of ADB- versus DMC-determined sector priorities. The MTS II's focus on identifying sector priorities and use of CSPs to provide the strategic framework for meeting DMC needs represents a reversal of the driver for priority setting and selectivity. Given the continued need and demand by DMCs, including weakly performing countries, low-income countries, and middle-income countries, for support in the MTS II group 2 and 3 sectors, and the perception of lack of clarity and inconsistencies in groupings, the MTS II and future priorities need to be reconciled and clarified.

The LTSF envisages ADB becoming a learning institution and emphasizes that a key area of organizational change involves the establishment and maintenance of the knowledge base necessary for the implementation and adjustment of the strategic agenda and of ADB operations over time. Response and initial results in these areas have been constrained by the lack of synergy among knowledge generation and dissemination departments. Independent evaluation studies provide lessons identified from the evaluation of past operations with a view to influencing the design of new operations and strategies. These lessons need to be effectively integrated into the learning process of the institution.

Overall Assessment. Overall, the relevance of the LTSF is found to be high, while ADB's response and the initial results achieved are rated medium (except in the area of inclusive social development, where it is rated low).

The LTSF has been a pioneering attempt to provide a long-term vision of ADB to its stakeholders and beneficiaries. It emphasizes ADB's commitment to help its DMCs reduce poverty and improve living conditions and quality of life. It envisages sustained and equitable economic growth, social development, and good governance as contributing to achieving the vision of poverty reduction. This three-track approach is conceptually strong and empirically valid in the majority of countries. The LTSF is highly relevant to the regional context as well as to DMC priorities for its intended period of implementation. As to its influence on ADB, the LTSF

is very clear that its broad focus on the various areas and themes would require extra financial and human resources. The fact that these have not always been forthcoming has limited the influence of the LTSF on ADB operations. The lack of a results framework and monitoring indicators, inadequate data management systems; presence of multiple strategic documents and statements and their weak strategic links with corporate planning and budgeting seem to have limited the effectiveness of the LTSF in influencing institutional behaviors and achieving its overall vision.

Lessons Identified. Key lessons that can be drawn from the evaluation study include the following:

- (i) The LTSF moved the poverty agenda in weakly performing countries and low-income countries in the region, but the need to address differences between DMCs has become more apparent, requiring greater focus on DMC needs and priorities.
- (ii) The operating principles specified in the LTSF and in the MTS II changed from DMC-driven sector selectivity to ADB-determined sector selectivity, requiring clearer and alternative approaches to reconciling DMC needs and areas of ADB's relative strengths.
- (iii) The needs and role of graduating and graduated (nonborrowing) member countries/economies in the region require explicit strategic attention.
- (iv) Sustainable economic growth has been a core ADB strength, but greater operational clarity is needed concerning types of growth and forms of assistance.
- (v) PPPs have been a relevant but underutilized form of assistance to support economic growth and some social development issues.
- (vi) The inclusive social development area discussed in the LTSF is relevant, but the staff and financial resources allocated have been insufficient to address the wide scope of issues.
- (vii) A clearer and more effective strategy for good governance is needed to guide operations.
- (viii) The LTSF's thematic areas are relevant but would have benefited from strategic mainstreaming and better resourcing.
- (ix) At the corporate level, having multiple strategy and planning documents with unclear strategic hierarchy and links, and difficulties in implementing them, can create confusion.
- (x) Strategic plans and aspirations need to accompany required resources.
- (xi) Corporate plans and budgets should define the expected results chain and a monitoring and evaluation system.
- (xii) An integrated and efficient data system is required to facilitate progress monitoring and decision making.

Implications for the Future. To ensure continuing relevance, client responsiveness, and results, building on LTSF achievements so far, ADB has three major roles to play in the region, taking into account country diversity and demand for ADB products and services: (i) financing development projects; (ii) providing high-quality policy advice, analytical work, and related knowledge services; and (iii) catalyzing the mobilization of resources with other development partners, the private sector, and newly emerging bilateral donors.

ADB needs to adjust its activities in several different ways to address the rapidly changing characteristics and needs of the region. DMCs still have different development needs, priorities, and demands, and the sector mixes required to meet their development objectives are also different. The range of issues, assistance areas, and products needed by countries

changes at different stages of development. The MTS II limits ADB's choices in responding to the range of DMC needs identified in the LTSF. Concerns over the narrowing of sector choices were reflected in views from the recent LTSF consultations with DMCs. In line with its charter, the rationale for ADB support is to respond to development needs that arise from government or market failures in all its DMCs.

ADB's role in middle-income countries is changing, with increasing demands for knowledge products and services, policy advice, private sector development, environmental management, and regional cooperation. Its future performance will be governed both by its ability to adapt its operations and instruments to rapidly changing client country needs and by how it enhances its institutional effectiveness in terms of human resources, business procedures, incentive systems, and results orientation.

Recommendations. In fine tuning the LTSF and formulating related strategies in the future and in their implementation, the following recommendations are suggested for Management's consideration:

- (i) **Focus on each DMC's binding development constraints and sector priorities, followed by sector selectivity in the country partnership strategy to create a critical mass of interventions.** Such a focus based on ADB's comparative advantages (i.e., relative strengths) and greater collaboration with other development partners would assist in achieving country demand-driven sector selectivity and partnership strategy.
- (ii) **Reduce the range of high-level strategic documents and statements to guide operations more effectively.** Multiple high-level strategic statements and documents can be confusing. Clear long-term vision and mission statements setting the overall direction of ADB, widely publicized and understood both internally and externally, could provide clarity and a strong sense of direction for ADB and its staff, leading to successful implementation. Overlapping and redundant strategy documents can be retired, with the key elements incorporated in the new strategy document or grandfathered as appropriate.
- (iii) **Enhance strategic clarity by focusing on one set of strategic directions over a combination of sector and thematic areas.** There is now the opportunity for ADB to decide on simplified but meaningful areas for its strategic directions. Areas such as regional cooperation and environmental sustainability perhaps qualify as strategic rather than crosscutting, given their importance and potential for lending operations and development effectiveness.
- (iv) **Expand private sector operations by developing synergies between ADB's public and private sector operations.** There is a large unmet demand for ADB's private sector operations in the region. Since there are two distinct cultures in ADB's private sector and public sector operations, harnessing synergies between them is an important and challenging task. Expanding private sector operations would also require additional resources.
- (v) **Increase investment in ADB's human resource development, and manage institutional change.** Human resource management and investment in ADB are much more challenging now than in the past owing to increased competition in labor markets, demand for more specialized skills, and the need to keep pace with the rapidly changing environment. ADB must recruit and retain high caliber professional staff.
- (vi) **Provide a better balance in terms of resource allocation and incentives between project preparation and implementation.** Development effectiveness requires good project design, efficient project delivery, and sustainable

outcomes. There needs to be a reasonable balance between project preparation prior to approval (ex ante) and project implementation after approval (ex post). Current incentives are biased toward ex ante efforts.

- (vii) **Strengthen ADB's capacity to provide knowledge products and services.** ADB's role in providing knowledge products and services could be strengthened by building synergies among ADB departments that are responsible for generating and disseminating knowledge, providing better incentives to staff, and networking with research institutions and knowledge networks of development partners.
- (viii) **Enhance ADB's data quality and information management systems and provide a set of performance indicators to monitor and evaluate progress in achieving strategic directions and likely development results.** Input, output, outcome, and impact indicators may be considered for inclusion in the monitoring and evaluation framework. Further streamlining of business processes is needed, combined with a logically integrated and technically efficient and accurate data system to assist the monitoring and evaluation of strategy implementation progress and results.

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I. INTRODUCTION

1. **Background.** The Long-Term Strategic Framework (LTSF), published in 2001,¹ defines the Asian Development Bank's (ADB) three core strategic areas as sustainable economic growth, inclusive social development, and governance for effective policies and institutions; and its three crosscutting themes as private sector development, regional cooperation, and environmental sustainability. It envisages implementation through three medium-term strategies (MTSs), each lasting for 5 years. The MTS I covered 2001–2005,² and the MTS II covers 2006–2008.³

2. The LTSF sets out a number of important ideas shared widely in ADB and the wider development community at the time of its formulation. It was not intended to be an operational document in that it does not provide specific guidance as to how particular programs should link with its core areas and crosscutting themes, nor does it give precise targets against which progress can be measured. It does, however, outline a set of operating principles, modalities, and organization and human resources issues for implementation. Operational aspects were meant to be covered in the MTSs. The central theme of the LTSF is that activities should respond to developing member countries' (DMCs) needs and that details are to be worked out at the country level in country strategies and programs (CSPs).

3. **Evaluation Objective and Scope.** The objective of this special evaluation study (SES) is to assess independently the achievements of the LTSF and its implementation through the MTS I and the early years of the MTS II in order to identify lessons for formulating future strategies and ADB operations. The SES is intended to provide feedback for the review of the LTSF and related strategies. However, since most of the ADB operations initiated after the formulation of the LTSF are still under implementation, it does not seek to assess their development effectiveness on the ground. The evaluation examines the LTSF's relevance, ADB's responsiveness to its strategic guidance, and its influence on results and result positioning. The scope of these criteria is as follows:

- (i) "Relevance" addresses the consistency of the LTSF with the regional context and DMC development needs and priorities.
- (ii) "Response" reviews the type and effectiveness of ADB's organizational response, encompassing operating principles, modalities, and resources.
- (iii) "Results and results positioning" assesses how the LTSF has influenced ADB's behavior in terms of deployment of resources; the evidence on initial results; and how, as a result of the LTSF, ADB is positioned to achieve development effectiveness of its operations in the longer term.

4. **Approach and Key Sources of Data.** The study is based on eight components covered in eight working papers. The working papers, which provide the analytical basis for the main report, are (i) the overall context and the relevance of the LTSF, (ii) sustainable economic growth, (iii) inclusive social development, (iv) governance, (v) private sector development, (vi) regional cooperation, (vii) environmental sustainability, and (viii) institutional effectiveness. The study draws on a detailed examination of a sample of CSPs and related country assistance program evaluations (CAPEs), and other relevant Operations Evaluation Department (OED) reports. It also reviews relevant analyses carried out by ADB and others. Evaluation evidence was also collected from perception surveys (staff, donor partners, and opinion leaders); consultation feedback on ADB strategies provided by DMC representatives during regional

¹ ADB. 2001. *Moving the Poverty Agenda Forward in Asia and the Pacific. The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

² ADB. 2001. *Medium-Term Strategy (2001–2005)*. Manila.

³ ADB. 2006. *Medium-Term Strategy II 2006–2008*. Manila.

consultations on the LTSF; and an analysis of ADB's operational data for the last 12 years. The study also examined the strategic frameworks of other multilateral development banks (e.g., the World Bank). Interim outputs of the SES were provided to the secretariat (Strategy and Policy Department) of the steering committee for the LTSF review as the study progressed. The evaluation subcriteria used in assessing the wide range of issues addressed in the LTSF are provided in Appendix 1. If the LTSF design and implementation met or exceeded the subcriteria, a "high" rating was given; when some subcriteria were partly satisfied or generally satisfied, the assignment rating assigned was "medium." Finally, when all criteria were partly satisfied or unsatisfied, the assessment was "low."

5. **Organization of the Report.** The rest of this report is organized as follows: Chapter II presents an evaluation of the pre-LTSF situation and the regional context; chapter III assesses the core strategic areas of the LTSF; chapter IV examines the crosscutting themes; chapter V provides an overall assessment of LTSF influences on improving ADB's institutional effectiveness; and chapter VI presents an overall assessment, lessons, and ensuing recommendations for consideration by ADB Management.

II. STRATEGY EVOLUTION AND THE REGIONAL CONTEXT

6. Prior to the development of the LTSF, the shift from ADB's role as a project finance institution to that of a broad-based development bank was guided by operational and strategy reviews in 1983 and 1989.⁴ In 2000, a decision was taken to reassess the "major long-term development challenges of the region and the changing needs of its DMCs" (footnote 1, page vi). This reassessment resulted in the publication of the LTSF in March 2001, with the intention "... to realize the new vision and mission of ADB, provide all stakeholders with its long-term strategic goals and fundamental operating principles, and to be the key statement to guide its strategic management over the next decade and a half" (footnote 1, page vii). The LTSF followed on from two previous strategic studies (footnote 4) and took into account the findings of the 1997 study *Emerging Asia: Changes and Challenges*,⁵ as well as building on the poverty reduction and private sector development strategies formulated in 1999 and 2000, respectively.⁶ The LTSF exercise provided a strategic framework that built on prior strategic planning, provided a comprehensive strategic basis for implementing the poverty reduction strategy (PRS), and aligned ADB's efforts with the Millennium Development Goals (MDGs) and their targets.

7. With the establishment of the Strategic Planning Unit in July 1991, the formulation of the 1992–1995 Medium-Term Strategic Framework (MTSF)⁷ was the first step in introducing strategic planning in ADB. Given the many challenges the Asia and Pacific region was facing in the 1990s and the limited resources available to ADB to finance projects that would address these challenges,⁸ ADB needed to focus on tackling critical constraints that were inhibiting DMCs from generating the resources they required for sustainable growth. The MTSF formally adopted the following development objectives:⁹ (i) promotion of economic growth, (ii) poverty

⁴ ADB. 1983. *Study of the Operational Priorities and Plans of the Asian Development Bank for the 1980s*. Manila; and ADB. 1989. *Report of a Panel on the Role of the Asian Development Bank in the 1990s*. Manila.

⁵ ADB. 1997. *Emerging Asia: Changes and Challenges*. Manila.

⁶ ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila; and ADB. 2000. *Private Sector Development Strategy*. Manila.

⁷ ADB. 1992. *Medium-Term Strategic Framework (1992–1995)*. Manila.

⁸ Most major development agencies were finding it increasingly difficult to raise funds for multilateral aid purposes, and the global availability of capital was expected to become gradually tighter in the 1990s. For ADB, the decline in the amount pledged for the sixth replenishment of the Asian Development Fund (ADF) relative to that obtained for ADF V was a factor (about SDR3.0 billion for ADF VI compared with SDR3.2 billion for ADF V).

⁹ These objectives represented an ADB-wide consensus on a balanced approach to achieving ADB's overall goal of assisting DMCs in improving living standards and the quality of life in the region.

reduction, (iii) improvement in the status of women, (iv) progress in population planning, and (v) promotion of sound management of natural resources and the environment.

8. Three years after adopting the rolling MTSF, ADB's lending mix had been consciously oriented to balance economic growth objectives with direct poverty reduction efforts, human development, women's status, and environmental protection objectives. The MTSF supported the introduction of country-focused operations planning with the preparation of country operational strategies. An Office of Environment and Social Development was established in 1995 to address and mitigate these crosscutting issues. In support of its new strategic directions, ADB prepared a series of policy and strategy papers¹⁰ on issues of significance to the achievement of its development objectives. The 1995–1998 MTSF recognized the need to realign ADB's operating role and objectives to ensure more effective and efficient realization of its strategic development objectives. It viewed ADB as a catalyst of policy change and capacity development in addition to its role as a project financier. ADB adopted broader operating objectives for itself in each DMC. The 1995–1998 MTSF¹¹ also redefined ADB's mission from project financier to provider of an integrated package of development services that link project financing to strengthen productive capacity, infrastructure, and services with support for policy reforms, capacity building for development management, and regional cooperation.

9. The 1999 PRS (footnote 6), and subsequently the LTSF, reflected development thinking prevailing around 2000. Both the PRS and the LTSF were prepared following the 1997 Asian financial crisis (AFC). The positive effects of economic growth on poverty prior to the crisis and during the postcrisis period provided the basis for the view in the PRS and the LTSF that poverty eradication is an achievable long-term goal. The LTSF, therefore, reinforced the 1999 PRS's focus on the "overarching goal of poverty reduction." There is general agreement in ADB, and in the wider literature, that the three core strategic areas of the LTSF are central components of any PRS. However, the emphasis by the ADB PRS was on pro-poor growth, and the LTSF on sustainable economic growth as well as poverty reduction. The role of both pro-poor and sustainable economic growth was endorsed in the 2004 review of the PRS and was reflected in the Enhanced Poverty Reduction Strategy (EPRS) of December 2004.¹² The 2000 Private Sector Development Strategy also had a bearing on the LTSF and identified three strategic thrusts (improving enabling environment, creating opportunities, and catalyzing private investments) for private sector development. Public sector operations were to support DMC governments in creating enabling environments for business or investment promotion, and to generate opportunities for public-private partnerships.

10. The MTS I provided further operational guidance for (i) CSPs as the drivers of sector selectivity and technical assistance (TA) needs, (ii) the need for economic and sector work to inform sector selection and ADB's rationale for support, (iii) support for policy reforms and capacity development as a core ADB product, and (iv) linking subregional cooperation efforts to CSPs. The MTS II places emphasis on sector selectivity as the primary driver of ADB's strategic priorities. The changes in ADB's strategic approach and DMC views of strategic issues from the 2007 LTSF consultations are summarized in Table 1.

¹⁰ Policy and strategy papers were prepared relating to population, forestry, energy, indigenous peoples, involuntary resettlement, private sector, information disclosure, inspection function, and capacity building.

¹¹ ADB. 1995. *The Bank's Medium-Term Strategic Framework (1995–1998)*. Manila.

¹² ADB. 2004. *Enhancing the Fight Against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

Table 1: Strategic Evolution and Developing Member Country Views

LTSF, MTS I	MTS II	Relevant DMC Views from LTSF Consultations
Strategic Framework and Objectives		
<p>Overarching goal was poverty reduction as stated in the Poverty Reduction Strategy with three core strategic areas:</p> <ul style="list-style-type: none"> • sustainable economic growth, • inclusive social development, and • governance for effective policies and institutions. <p>Three crosscutting strategic themes:</p> <ul style="list-style-type: none"> • promoting the role of private sector in development, • supporting regional cooperation and integration for development, and • addressing environmental sustainability. 	<p>ADB's five strategic priorities to further strengthen the poverty reduction impact of ADB operations were</p> <ul style="list-style-type: none"> • catalyzing investment, • strengthening inclusiveness, • promoting regional cooperation and integration, • managing the environment, and • improving governance and preventing corruption. 	<ul style="list-style-type: none"> • Poverty agenda continues to remain important in many DMCs and hence a development priority. • Diverging DMC performance needs further attention, especially in lagging DMCs. • Underexploited regional cooperation role for ADB in facilitating trade agreements. • MIC needs such as financial market deepening and social security systems need attention. • Enhance the enabling environment for public-private partnerships.
Operational Principles and Model		
<ul style="list-style-type: none"> • Ensure country ownership and leadership of the development agenda. • A long-term view of development assistance. • Enhance strategic alliances and partnerships. • Measure development impact. 	<ul style="list-style-type: none"> • Select core operational sectors for building the required critical mass of expertise in ADB operations. • Realignment of the organization. • More focused use of ADB's TA resources. • Strategic use of financing partnerships and cofinancing. • Product and process innovations to enhance ADB's responsiveness, flexibility, and efficiency. • Focus on portfolio performance, development effectiveness, and results 	<ul style="list-style-type: none"> • MTS II group 2 and 3 sectors still important to low-income DMCs and areas of middle-income DMCs. • ADB needs to respond to and tailor services in line with differing DMCs needs and ADB competencies. • Further room for improving DMC ownership of operations. • Continued need to lower transaction costs to DMCs of loan projects. • Ensure policy measures are consistent with country conditions and priorities.

ADB = Asian Development Bank, DMC = developing member country, LTSF = Long-Term Strategic Framework, MIC = middle-income country, MTS = Medium-Term Strategy, TA = technical assistance.

Sources: Compiled from LTSF, MTS I, MTS II, and LTSF regional consultations.

11. In 2000–2001, memories of the AFC of the late 1990s were still fresh, and there was concern over the potential for further regional financial instability. In general, these fears have proved to be unfounded. The crisis-hit countries in East Asia have seen rapid economic recovery, although with growth about two percentage points below the pre-crisis trend.¹³ This has been accompanied by continued strong growth in the People's Republic of China (PRC) and improvements in the large South Asian economies like India, Pakistan, and Bangladesh. The PRC and, to a lesser extent, India have proved to be growth centers for the whole Asian region with a profound impact throughout the region and globally.¹⁴ The PRC has linked other economies in East Asia through participation in global production networks, importing parts and components from some of the Association of Southeast Asian Nations (ASEAN) economies and capital equipment and technology from Japan and Republic of Korea for use in final products for export to the United States in particular. There has been some instability caused by price changes on the world market, but the LTSF could not have been expected to forecast the

¹³ ADB. 2007. *Asian Development Outlook*. Manila.

¹⁴ Winters, L.A., and S. Yusuf, eds. 2007. *Dancing with Giants*. World Bank, Washington, DC. Available: <http://www.worldbank.org>

significant rise in the relative price of oil and of many non-oil primary commodities driven in part by demand from large, fast-growing economies such as India and PRC.¹⁵

12. Given the region's situation in 2000, it is understandable that the LTSF should have set poverty reduction as the overarching goal, which was also the general view within the aid community. Table 2 sets out current estimates of the state of poverty in the region for 1999 and 2004, highlighting the fact that achievements in the PRC dominate the aggregate data. Future projections of poverty levels are critically dependent on what is assumed about the pattern of income distribution (see Working Paper 1 for further discussion).

Table 2: World Bank Poverty Estimates: 1999 and 2004

Region	Population Living Below \$1/day Income			
	Headcount (%)		Number (million)	
	1999	2004	1999	2004
East Asia and Pacific	15.5	9.1	276.5	169.1
of which People's Republic of China	17.8	9.9	222.8	128.4
Eastern Europe and Central Asia	3.8	0.9	17.9	4.4
South Asia	34.9	30.8	463.4	446.2
of which India	37.7	34.3	376.3	370.7
Region	Population Living Below \$2/day Income			
	Headcount (%)		Number (million)	
	1999	2004	1999	2004
East Asia and Pacific	49.3	36.6	882.7	683.8
of which People's Republic of China	50.1	34.9	627.6	452.3
Eastern Europe and Central Asia	18.6	9.8	87.9	46.3
South Asia	80.4	77.1	1,067.2	1,115.8
of which India	82.7	80.4	825.9	867.6

Source: Chen, S., and M. Ravallion. 2007. Absolute Poverty Measures for the Developing World 1981–2004. *World Bank Policy Research Working Paper 4211*. World Bank, Washington, DC (Tables 1 and 2). Note there are minor differences with Asian Development Bank estimates reported in Ali, I. 2007. Pro-Poor to Inclusive Growth: Asian Prescriptions. *ERD Policy Brief 48*. ADB, Manila.

13. Currently, the projected large numbers who will remain below the \$1/day and \$2/day poverty lines in 2015 suggest that poverty and vulnerability to poverty are far from being removed as a policy problem in the region. Recent ADB projections to 2020 foresee poverty under different growth and distribution scenarios. Under the most favorable combination (benchmark growth and a pro-poor distributional shift), extreme poverty as measured by the \$1/day poverty line will be virtually eradicated in the region by 2020, falling to 2% of the regional population, or 78 million persons. Under the least favorable combination (low growth and a pro-rich distributional shift), 10% of the population or 391 million persons will remain poor. At the higher \$2/day poverty line, the most favorable combination gives a headcount of 25% covering 973 million persons, and the least favorable combination a headcount of 40% or 1.6 billion persons.¹⁶

14. The PRS and the LTSF were aligned with the international development goals, and the MTS I and MTS II with the subsequent MDGs. The LTSF period was designed to coincide with the MDG target of 2015. Current assessment of the progress on the MDGs is that income poverty targets are on track in many DMCs and for the region overall, but non-income related MDGs such as health and environment indicators and water and sanitation targets appear at

¹⁵ In early 2007, in real terms, the international oil price reached a level not seen since the mid-1980s (World Bank. 2007. *East Asia Update*. Washington, DC). Available: <http://www.worldbank.org>

¹⁶ Ali, I., and J. Zhuang. 2007. Inclusive Growth Towards a Prosperous Asia. *ERD Working Paper Series 97*. ADB, Manila (Table 5).

risk of not being met.¹⁷ There is also a wide country variation, with least-developed countries making slower progress. Appendix 2 summarizes the position for the region and for subregional groupings by showing targets that are currently deemed either “off track slow” or “off track regressing.”

15. Many of the current key international development policy issues were already anticipated in the LTSF, although in some cases there are differences in emphasis. Table 3 summarizes some of the key aspects.

Table 3: Policy Emphasis: LTSF and Now

Policy Issue	LTSF	Currently
Poverty	Focus on absolute poverty – “poverty reduction remains the central challenge in the region” (p. 3)	Emphasis on relative poverty with evidence of rising inequality ^a
MDGs	Seen as critical goals for development	Retain central role for donors but may be less important for DMC policymakers
Globalization	Recognition that in general “globalization led by trade and financial liberalization...is having a deep impact on Asian economies and societies” (p. 7)	Stress on impact of emerging giants—PRC and India—on region and global economy; need for increased competitiveness and technical change for middle-income (borrowing) and graduated (nonborrowing) ^b economies
Environment	Concern over local and regional effects – “the challenge for the region is not only to preserve and protect the environment but to reverse environmental degradation while maintaining robust economic growth” (p. 6)	Recognition of large country polluters in Asia and of long-term climatic impacts and their cost ^c
Urbanization	Recognition that “in another two decades almost half of the region’s population will be urban.... managing urbanization will pose a major challenge” (p. 6)	Strain on urban infrastructure and housing, but also potential for efficiency gains through agglomeration effects; more small and medium sized cities needed ^a
Infrastructure	Critical to attaining LTSF objectives – “building and upgrading physical and social infrastructure... is a primary condition for robust sustained growth” (p. 3)	Concerns over funding gap and recognition that private funding has failed to materialize in most infrastructure sectors ^d

DMC = developing member country, LTSF = Long-Term Strategic Framework, MDG = Millennium Development Goal, PRC = People’s Republic of China.

^a World Bank. 2006. *An East Asian Renaissance: Ideas for Economic Growth*. Washington, DC. Available: <http://www.worldbank.org>

^b Winters, L.A, and S. Yusuf, eds. 2007. *Dancing with Giants*. World Bank, Washington, DC. Available: <http://www.worldbank.org>

^c Stern, N. 2006. *Stern Review: The Economics of Climate Change*. Available: <http://www.hm-treasury.gov.uk>

^d Asian Development Bank (ADB). 2005. *Connecting East Asia: A New Framework for Infrastructure*. Manila (a joint report by ADB, Japan Bank for International Cooperation, and World Bank).

16. Of the differences in nuance between the LTSF and current thinking, two have taken on a high degree of urgency. On the environment, while the LTSF mentions the need to address regional and global issues, its operationalization tended to focus on local, generally project-specific safeguards through environmental impact analyses and appropriate mitigatory measures instead of more proactive measures to reverse resource depletion and environmental degradation. In the meantime, some environmental problems have assumed global importance. For example, since 2001, science has firmed up its position on the long-term climatic consequences of carbon dioxide emissions, and the long-run nonlocalized consequences of environmental effects are now better understood. Asia’s global share in greenhouse gas emissions rose from below 10% in the early 1970s to nearly 25% in 2003 with a projected share

¹⁷ ADB, United Nations Development Programme, and United Nations Economic and Social Commission for Asia and the Pacific. 2007. *The Millennium Development Goals: Progress in Asia and the Pacific 2007*. Bangkok.

of almost 30% in 2030 (footnote 3). Further discussion on the environment is presented in chapter IV and Working Paper 7.

17. The other major area of difference between the LTSF and current thinking relates to poverty and inequality. The LTSF is principally concerned with absolute poverty as defined by the numbers below the \$1/day poverty line. Inequality is mentioned in the context of inclusive social development and particularly of gender equality, and a highly inequitable growth path is deemed both undesirable and unsustainable. Despite the apparent lack of a systematic relationship between the speed of growth and inequality in the longer term, the period since 1990 has witnessed a rise in inequality within a significant number of DMCs. Recent ADB estimates suggest a rise in inequality as measured by the Gini coefficient in Bangladesh, Cambodia, PRC, India, Lao People's Democratic Republic (Lao PDR), Nepal, Pakistan, Philippines, Sri Lanka, and Viet Nam.¹⁸ These contrast with decreases in inequality in Malaysia, Mongolia, and Thailand, and a virtually static position in Indonesia (footnote 16, Table 2). The Economics and Research Department's analysis concludes that the rich are getting richer faster than the poor, raising the need for a public policy response to address concerns over the destabilizing effects of unequal opportunity that could undermine sustainable growth.

18. Overall, the LTSF remains valid in its identification of poverty as the key concern for DMCs, especially in smaller, poorer countries and in backward states or provinces of large countries. Nonetheless, with growth and rising living standards in most DMCs, poverty is being seen increasingly in relative rather than absolute terms. The LTSF recognizes that growth can lead to unequal distribution and highlights the need for a sustainable and equitable pattern of growth. While recognizing the need to create an "effective enabling environment" for private sector development, the LTSF anticipates the more recent focus on "inclusive growth," but widening gaps have elevated the concern.

19. The twin trends of environmental degradation and rising inequality have combined to raise questions as to whether absolute poverty in its extreme (\$1/day) or less extreme (\$2/day) definitions needs to be replaced as the key policy objective by a greater focus on relative poverty. The LTSF stresses sustainable growth that would raise the incomes of the poor, while the newer concept of inclusive growth gives greater weight to the removal of barriers to opportunity that are associated with inequality. However, the LTSF also anticipates this approach by writing of "inclusive social development... that will promote equity and empowerment" (footnote 1, page 14) and of the need for "equitable access by all to assets and opportunities" (footnote 1, page 17).¹⁹ Inclusive growth is said to require a three-track approach of sustainable and environmentally friendly growth, a level playing field for all, and social protection for the most vulnerable. This is elaborated upon by the Economics and Research Department (footnote 16). As a level playing field can be said to require governance reform to operationalize a policy of equality of opportunity, it seems that ADB would have to give major attention to governance issues and inclusive social development and combine this with significant social safety net expenditure. This three-track approach has similarities to the three pillars of the LTSF. In this context, the LTSF strategic direction remains relevant. Based on the foregoing discussion, the LTSF is assessed to be highly relevant to Asia's regional context and the development priorities needs of the DMCs.

20. As previously noted, the LTSF was not intended to be an operational document, a role that was to be filled by a series of MTSSs. It does not define the strategic interventions required to apply its core areas and themes but focuses instead on the broad "operating principles" of country ownership, long-term perspective, strategic alliances, and measurement of development impact. In line with its focus on the country level, CSPs were developed as the key mechanism

¹⁸ ADB. 2007. *Inequality in Asia: Key Indicators 2007, Special Chapter*. Manila.

¹⁹ Appendix 2, page 57 of the LTSF further discusses the challenges of equity in development.

for DMC operations. A variety of attempts at measuring development impact have been undertaken, including the managing for development results (MfDR) initiative, which is the subject of a separate evaluation.²⁰ But the LTSF itself and the MTS I cannot be subject to this form of scrutiny, as they contain no monitorable targets. Insofar as the LTSF has been implemented in parallel with the 2002 reorganization that created the regional departments and decentralized much of the country work, ADB could be said to have been responsive to its broad agenda. However, as discussed below, there have been issues of staffing, resources, and operating practices that have limited the ability of ADB to respond fully. While the LTSF underscores relevance of regional cooperation, it does not explicitly mention needs and opportunities of partnering with graduating and graduated economies in the region.²¹

21. Although there has been only a modest change in the composition of the loan portfolio during LTSF implementation, there is evidence that the conduct of business in operations is consistent with the LTSF's operating principles and its strategic direction, for example closer alignment with DMC priorities, more concern with poverty and environmental impacts, more emphasis on private sector involvement, and more stress on governance. Support for this is found in OED reports (see, for example, the SES on energy and the transport sector assistance program evaluation).²² Further details are discussed in chapters III, IV, and V in assessments of the core strategic areas, thematic areas, and institutional effectiveness. Hence, while on the one hand major shifts in sector lending did not take place, on the other hand there has been an alignment with DMC priorities and evidence of a change of operational concerns.

III. CORE STRATEGIC AREAS

22. In terms of the logic underlying the LTSF, there are theoretical and empirical arguments showing that the three strategic areas can potentially reinforce and complement each other in the long run, but this is not inevitable. There can be trade-offs between more rapid growth and more socially inclusive or more environmentally sustainable patterns, especially in the short run. The virtuous circle of the LTSF's three strategic areas is plausible, but needs to allow for the possibility that initiatives under one strategic area may not strengthen the others. This chapter discusses the three core strategic areas (sustainable economic growth, inclusive social development, and governance) identified by the LTSF and their relevance, implementation response, and how ADB is positioned to achieve positive results in these areas. However, based on results from operations completed during the LTSF period that commenced prior to the LTSF, results depend on the complexity of challenges and operations.

A. Sustainable Economic Growth

23. **Relevance.** The LTSF sets out to promote economic growth that is sustainable and inclusive, so that its benefits reach those most in need while preserving and protecting the environment. Its sustainable economic growth strategic area captures the intent of the pro-poor economic growth pillar of the PRS and anticipates the need to consider wider environmental issues in emerging middle-income Asian economies (footnote 1, page 16). The subtlety of the sustainable economic growth concept, which was intended as an extension of pro-poor growth, has not been fully recognized in operations. The MTS I needed to be clearer in guiding how the concept was to be applied. Further discussion is presented in Working Paper 2.

²⁰ ADB. 2007. *Special Evaluation Study on Managing for Development Results*. Manila (draft).

²¹ ADB. 2006. *Economic Analysis Retrospective 2005: Strengthening Quality at Entry of ADB Operations*. Manila.

²² ADB. 2006. *Special Evaluation Study on Energy Policy Review 2000*. Manila; ADB. 2006. *Sector Assistance Program Evaluation: Transport Sector in India – Focusing on Results*. Manila; and ADB. 2007. *Sector Assistance Program Evaluation of Asian Development Bank Assistance for Roads and Railways in the People's Republic of China*. Manila.

24. Sustainable economic growth is to be supported by investments, policy support, and institutional strengthening of the DMCs. The key subsectors under this core area are (i) physical infrastructure, (ii) social infrastructure, (iii) urban development, (iv) rural development, and (v) information and communications technology. The continuing lack of physical infrastructure is highlighted as a limiting factor in growth, and its further development is prioritized to build on links between infrastructure, growth, and poverty (footnote 1, page 17).²³ Social infrastructure for health, education, and skills development is seen as necessary to drive pro-poor, inclusive growth including targeting bypassed areas (footnote 1, page 18). Problems of urbanization, including accelerated rural-urban migration, congestion, deteriorating living conditions, urban poverty, and expanding needs for urban infrastructure would be addressed through urban development.

25. The LTSF recognizes that, as economies grow, they change structurally, with manufacturing and services expanding relative to agriculture.²⁴ It also recognizes that the majority of the region's poor reside in rural areas,²⁵ and that, despite increasing rural-urban migration, rural poverty will continue to be a significant problem throughout the LTSF period. As a consequence, there has been a need to address improvements in agricultural productivity and incomes. Agriculture and natural resources (ANR) management is also to be supported to promote growth and environmental sustainability. Financial infrastructure and systems are to be strengthened, as are public and private sector governance systems to support broad-based growth, enhance job creation through private sector development, and increase development effectiveness. The information and communications technology development was needed to prevent a widening gap between the rich and poor in terms of information technology. National PRSs should provide the basis for nationally driven poverty reduction programs and ensure adequate budget allocations for human capital, gender equity, population policies, and social protection.

26. Following the events and effects of the AFC, the LTSF recognizes the importance of financial intermediation for the private sector and stresses the need to develop long-run finance for private investment, drawing particular attention to the need for bond market development. This builds on established ADB initiatives such as the Regional Economic Monitoring Unit²⁶ to enhance capacity in financial market surveillance and management. The LTSF acknowledges the need for improved financial intermediation and regulation to channel savings to the private sector, and the "fragility of the region's capital markets" (footnote 1, page 17).

27. There is substantial empirical evidence from the literature showing the positive relationship between physical infrastructure and growth, and between growth and poverty reduction.²⁷ This and other research (Working Paper 1) support the LTSF reasoning that infrastructure both raises growth and lowers income inequality, implying that infrastructure development may be a key win-win ingredient for poverty reduction. However, the direct relationship between infrastructure and poverty depends on the type of infrastructure, the

²³ This is further supported by ADB. 2005. *Connecting East Asia: A New Framework for Infrastructure*. Manila (joint report by ADB, Japan Bank for International Cooperation, and World Bank), which sets out the case for infrastructure and the need for new investment in East Asia.

²⁴ Footnote 13 analyzes "growth spurts," showing that these tend to be associated with rising shares in gross domestic product for manufacturing and to a lesser extent services, which creates falling shares for agriculture. Only in the Lao PDR and Nepal does agriculture contribute more to growth than industry.

²⁵ ADB. 2000. *Rural Asia: Beyond the Green Revolution*. Manila.

²⁶ The Regional Economic Monitoring Unit was established in 1999 in direct response to the AFC and was subsequently integrated with the Office of Regional Economic Integration. The function of economic and financial market surveillance continues.

²⁷ For example, Calderon, C., and L. Serven. 2005. *The Effects of Infrastructure Development on Growth and Income Distribution*. World Bank Policy Research Working Paper 3643. Washington, DC, in a cross-sectional analysis covering 121 countries over 1960–2000, tests for the impact of infrastructure stocks on growth and inequality, finding that infrastructure has a significant and positive impact on growth.

location of the poor, and the existing stock of infrastructure.²⁸ Furthermore, empirical analysis of changes in welfare (as proxied by the Human Development Index) shows that in low-income countries improvement is primarily through growth effects rather than the financing of social expenditures.²⁹ The implication is that broad social expenditure targeting, and by extension aid in this area, need to be well designed to achieve better results. There is also an interaction between physical infrastructure and social improvements.³⁰ Positive impacts on poverty including non-income poverty of transport and energy projects, especially in rural areas, were identified through a participatory approach in the PRC, India, and Thailand³¹ (Working Paper 2).

28. Rapid, unmanaged urbanization is recognized in the LTSF as a major problem, and improving urban management is identified as a priority regional development need. Rising urban poverty as a future problem identified in the LTSF is borne out by current patterns in progress toward achieving the MDGs (Appendix 2). The LTSF identifies the rising demand for urban development and services (such as water supply and sanitation, housing, slum improvement, urban transport, urban environment, and urban service management) and related poverty reduction components including finance and microcredit. The growing relative importance of urban poverty can be expected in many DMCs, and the policy implication of these trends places urban infrastructure investment and urban-based social expenditure as a priority area for the region.

29. Recognizing that public sector resources alone are not enough, the LTSF calls for greater public-private partnership in infrastructure provision, but the private sector's role has mainly been in fixed-period service and operation and maintenance contracts. Although private infrastructure investment has recovered to precrisis levels, it is concentrated in a few countries (principally India, Pakistan, and PRC) and in energy and telecommunications. Investments in roads, electricity transmission, and water and sanitation remain highly dominated by the public sector in most DMCs (footnote 23).

30. The sustainable economic growth strategy is assessed as highly relevant to Asia's development challenges, although the context has changed as was predicted. ADB maintains a competitive advantage in physical infrastructure, especially transport and communications, the physical aspects of energy, physical social infrastructure (such as water supply and sanitation), and finance. Demand for urban and rural development support among DMCs continues, but ADB's competitiveness in urban development, rural development, and ANR management has become mixed owing to lack of organizational focus and/or in-house skill diffusion.³² In-house skills can be complemented by external sources, but there is a need for further strategic clarity in how ADB organizes itself to manageably address complex interconnected urban and rural problems. However, an aspect for which the LTSF does not provide specific guidance is graduated (nonborrowing) economies and their role in supporting economic growth and poverty reduction in the region.

²⁸ See, for example, Fan, S., P. Hazell, and S. Thorat. 1999. *Government Spending, Agricultural Growth, and Poverty: An Analysis of Interlinkages in Rural India*. Institute of Food Policy Research. Research Report 110. IFPRI, Washington, DC; and Fan, S., L. Zhang, and X. Zhang. 2002. *Growth, Inequality, and Poverty in Rural China*. Institute of Food Policy Research. Research Report 125. IFPRI, Washington, DC.

²⁹ See Working Paper 2 for growth and welfare regressions that test the impact of infrastructure stock on growth.

³⁰ Jalilian, H., and J. Weiss. 2006. *Infrastructure and Poverty: Cross Country Evidence*. In Weiss, J., and H. Kahn, eds. *Poverty Strategies in Asia: A Growth Plus Approach*. Cheltenham. Edward Elgar. This study found that a more educated population, is better placed to take advantage of the opportunities for poverty reduction offered by infrastructure. Balisacan, A. and E. Pernia. 2003. *Poverty Inequality and Growth in the Philippines* in E. Pernia and A. Deollikar, eds. *Poverty, Growth and Institutions*. Basingstoke. Palgrave Macmillan drew a similar conclusion for the Philippines.

³¹ ADB. 2005. *Assessing the Impact of Transport and Energy Infrastructure Projects on Poverty Reduction*. Manila.

³² ADB. 2006. *Special Evaluation Study on Urban Sector Strategy and Operations*. Manila.

31. **Response.** The LTSF recognizes the region's diversity and that each DMC's strategy for addressing poverty reduction and sustainable economic growth might differ. CSPs were the means for ADB to promote economic growth and address the other dimensions of the LTSF in each DMC. A sample of five CSPs and associated CAPEs (Appendix 3) were examined to assess their consistency with the goals and operating principles of the LTSF. All CSPs except Uzbekistan were assessed as responsive to the goal of sustainable economic growth and focused on the broad priority areas of physical infrastructure, (physical) social infrastructure, urban development, and rural development. The information and communications technology is identified as a separate area in the LTSF, but in practice efforts under this heading have been largely subsumed under other interventions.

32. The sample CSPs were generally responsive to DMC needs and objectives. Country ownership of the development agenda was strong in the PRC (where the CSP was highly responsive to government priorities, especially in the transport and urban water and sanitation sectors), but the picture was mixed in the smaller DMCs in the sample, particularly where political change added uncertainty and altered the degree of government support for a CSP (e.g., Papua New Guinea and Sri Lanka). In the Lao PDR, the shift from physical infrastructure-led growth to more targeted poverty reduction interventions was questioned in the 2006 CAPE. Strategies for agriculture, transport, and energy in Sri Lanka were assessed as responsive in the 2007 CAPE. The CAPE for Uzbekistan found the rationale for infrastructure interventions to be sound and consistent with government policy, but progress in the agriculture sector was hindered by delay in sector reforms, although ADB was assessed to have remained constructively engaged.

33. The sample CSPs showed responsiveness to strategic alliances and partnerships between aid agencies, except in countries where other agencies chose not to prepare joint strategies or their level of country involvement changed. Responsiveness to measuring development impact was mixed due to, variously, lack of results indicators, lack of monitoring mechanisms, or reliance on the MDGs, which often do not allow an assessment of the impact attribution of individual operations. Overall, there is evidence that country operations have been responsive to the LTSF sustainable economic growth strategy and its operating principles, although not uniformly so, for reasons both within and outside ADB's influence. Given the extent of response and alignment of CSPs to the LTSF's operating principles in the sustainable economic growth area, the rating of the response to sustainable economic growth is medium.

34. **Results and Results Positioning.** The LTSF and the MTS I did not set out operational (i.e., lending) priorities, which were to be determined at the country level. However, ADB's lending portfolio allocations have focused principally on the LTSF sustainable economic growth objective, with physical infrastructure as the key sector used to achieve this. Between 1995 and 2006, the value of ADB loans to sectors associated with promoting sustainable economic growth ranged from 68% to 88% of total loans to the public sector (Table 4). Physical infrastructure, which is an area of ADB core competency, has dominated the portfolio, with around half of the total loan value going to the transport and communications; energy; and water supply, sanitation, and waste management sectors. The share of physical infrastructure projects to total loan value rose from around 40% in 1995–2000 to 52% in 2001–2006, suggesting that physical infrastructure was the main vehicle used by ADB in achieving its overarching goal of poverty reduction.

Table 4: Sector Distribution of Public Sector Loans, Percentage Share
(1995–2000 and 2001–2006)

Sector	1995–2000		2001–2006	
	Volume ^a	Value	Volume	Value
Transport and Communications	16.4	19.5	17.2	31.9
Energy	10.9	16.1	10.1	13.6
Agriculture and Natural Resources	18.2	9.5	14.5	8.4
Finance	10.0	22.5	8.7	9.2
Industry and Trade	2.7	2.4	4.7	1.7
Law, Economic Management, and Public Policy	4.7	3.4	9.8	9.9
Water Supply, Sanitation, and Waste Management	6.7	4.8	9.2	6.5
Education	10.2	5.6	8.5	3.8
Health, Nutrition, and Social Protection	5.3	4.6	3.4	1.6
Multisector	14.9	11.5	13.9	13.3

^a Volume is number of loans.

Source: Compiled from the Asian Development Bank loan and technical assistance database.

35. The number of loans for ANR, which was an important sector prior to the LTSF in terms of the volume of loans, declined from 82 loans in 1995–2000 to 65 loans in 2001–2006. However, an increase in the number of loans to the ANR sector was observed in 2006 in response to demands from the PRC and DMCs in South and Southeast Asia. Major fluctuations in portfolio composition, such as the increase in finance lending during the pre-LTSF period, were in response to specific needs such as the AFC. An increase in the value of loans to the law, economic management, and public policy (LEMPP) sector was also observed after the AFC, as the crisis highlighted the importance of effective macroeconomic management and underscored the risks of poor governance in both the public and private sectors. Despite the fluctuations, the rise in numbers of finance and governance-related projects during and after the AFC suggests that ADB has been responsive to DMC needs. Supporting physical infrastructure projects among its DMCs has remained a core sector for ADB prior to and during the LTSF.

36. Some if not most loans cannot be attributed to a single theme. Until 2003, loans with multiple themes were assigned a different category. Beginning in 2004, theme assignments were no longer mutually exclusive, and loans could be assigned up to three themes regardless of the breakdown of resources attributed to each theme and without regard to the hierarchy of the themes in a project. The assignment of multiple themes in 2004 also led to a further decline in “economic growth” loans, while “multitheme growth” loans appear to have increased. It is difficult to draw firm conclusions on trends over the LTSF period because of the changes in ADB’s project classification (see Appendix 4 for data issues).

37. However, the addition of multiple themes suggests that concerns over goal congestion and project complexity have not eased during the LTSF period and may exacerbate already inherently complex development issues. For example, relatively more complex rural and urban sector projects generally have lower postevaluation ratings than transport and communications projects. While the former projects are LTSF priorities and have been demanded by DMCs, several factors have affected their performance, as indicated in Box 1. Multiple themes and cumbersome processing and administration procedures run the risks of further jeopardizing project performance.

Box 1: OED Evaluation Findings on Operational Outcomes in Rural and Urban Areas

- **Problem diagnosis and assumptions.** Farmer/artisan decisions are influenced by a complex array of economy-wide market conditions and meso-factors such as infrastructure, institutions, and incentives that run the risk of problem misdiagnosis or simple assumption making.^a Insufficient analysis and understanding of the demand side of projects contributes to mixed results.
- **Objectives.** Solving urban problems, like rural problems, is wide ranging and complex and cannot always be addressed from a single sector perspective, which runs the risk of multiple objectives emerging, and can complicate design and implementation.^b
- **Designs suited for required procedures.** Projects with numerous, diverse subprojects; many project sites; and multiple implementing agencies combined with preapproval review procedures more suited for larger projects, including all crosscutting issues, show significantly slower approvals, disbursements, and implementation, which add to transaction costs.^c
- **Participation approaches.** Public projects in urban and rural areas often involve several levels of decision making and service provision, and numerous players and participants. The weaker the service or the more levels for support approval, the lower the quality of the service is likely to be. Typical forms of participatory approaches may not offer an effective solution to conventional service delivery problems where they do not alter the principal-agent relationships among policymakers, project providers, and beneficiaries.^d

OED = Operations Evaluation Department.

^a Economic Research Department. 2002. *Improving the Relevance and Feasibility of Agriculture and Rural Development Operations: How Economic Analyses Can Help*. Manila.

^b Asian Development Bank (ADB). 2006. *Special Evaluation Study on Urban Sector Strategy and Operations*. Manila.

^c ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China: Success Drives Demand for More Innovative and Responsive Services*. Manila.

^d ADB. 2004. *Special Evaluation Study on Effectiveness of Participatory Approaches: Do the New Approaches Offer an Effective Solution to the Conventional Problems in Rural Development Projects?* Manila.

Sources: Compiled by the Operations Evaluation Department's Long-Term Strategic Framework evaluation team.

38. The LTSF emphasizes the use of sector-wide approaches to pool significant levels of funding for a sector in order to support a specific policy or an expenditure program serving to reinforce the country ownership and leadership principle by giving government more flexibility over the use of resources. Cofinancing is one of the key ways of implementing the operating principle of aid collaboration highlighted in the LTSF. However, levels of cofinancing remained roughly constant during 1999–2004 at around \$2.7 billion a year, until 2005, when cofinancing rose sharply to \$7.2 billion, and 2006 at \$5.7 billion, including significant commercial financing for energy and transport projects. Partnering through modalities such as development policy loans to Viet Nam³³ and Indonesia³⁴ helps to fulfill ADB's obligations to the Rome Declaration on harmonizing procedures of multilateral and bilateral development institutions and the Paris Declaration on Aid Effectiveness. Both programs have provided the governments with financing needs to support budgets and ongoing reforms.

39. OED reports show that ADB physical infrastructure projects have success rates of 88% for evaluations completed during 2001–2006. The success rates of operations in ANR (52%), LEMPP (55%), and multisector (64%) projects are lower for the same period (see Appendix 5 for project success rates), although this is also a reflection of the complex challenges of these sectors. Box 2 summarizes key messages from recent OED evaluation studies related to sustainable economic growth interventions.

³³ ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Support the Implementation of the Poverty Reduction Program III (Socialist Republic of Viet Nam)*. Manila (Loan 2262-VIE[SF], for \$15 million, approved on 5 October).

³⁴ ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster and Loan Second Development Policy Support Program (Indonesia)*. Manila (Loan 2305-INO, for \$200 million, approved on 20 December).

Box 2: Selected Examples of Evaluation Feedback

- Outcomes have generally been positive in sustainable economic growth sectors such as transport and communications, finance, energy, and social infrastructure. These sectors are accounting for as much as 80% of the annual loan portfolio.^a
- Physical infrastructure projects contributed, at least indirectly, to links among growth, poverty, and infrastructure.
- Rural roads investments have had a positive impact on employment opportunities, service access, and market access.
- Private sector investments and involvement in transport infrastructure have been much lower than expected.
- Public investment in poor regions does not always lead to rural growth or poverty reduction.
- Investing in standard packages to upgrade rural infrastructure and support agricultural production in poor regions does not guarantee results; tailor-made interventions are needed.
- Solving urban and rural problems is complex and cannot always be addressed from a single sector perspective.

^a Asian Development Bank (ADB). 2006. *2006 Annual Evaluation Review*. Manila; and ADB. 2007. *Special Evaluation Study on Energy Policy 2000 Review: Energy Efficiency for a Better Future*. Manila.

Source: Compiled by the Operations Evaluation Department's Long-Term Strategic Framework evaluation team.

40. OED evaluations have revealed some difficulties in areas identified as important in the LTSF. As noted in Box 2, improving urban management was identified as a priority regional development need, but solving urban problems is complex and cannot always be addressed from a single sector perspective. Evaluation of the urban sector strategy argues that ADB's institutional focus on urban areas has been diffused, with only a modest funding increase for urban projects up to 2005 (footnote 32). The LTSF's strategic guidance on agriculture and rural development is too broad, and available in-house skills have been narrowed. There is recognition of the need to prioritize the strategy to address rural growth and poverty.³⁵ Important emerging issues such as climate change, land and water management, and other natural resources management questions relate to rising environmental concerns. Results from the LTSF have, overall, been mixed, with some activities identified there as important (urban activity and ANR management) but requiring further strategic clarity and operational design improvements. Given the extent to which the MTS I, in particular, adhered to the LTSF guidance on sustainable economic growth, positioned ADB to contribute to achieving socioeconomic development in the region, and achieved a critical mass to do so, the rating for initial results and results positioning for the sustainable economic growth area is medium.

B. Inclusive Social Development

41. The second core strategic area identified in the LTSF is inclusive social development, which covers investments in social support programs (social sectors and social development) and a policy and reform agenda that will promote equity and empowerment, especially for women and disadvantaged groups (footnote 1, page 14).

42. **Relevance.** The LTSF identifies the need for a comprehensive program for social development that will empower weaker groups in society and for social support programs that will respond to the long-term needs of the poor, the aged, and the otherwise disadvantaged, as well as to the shorter term needs arising from natural disasters and economic crises (footnote 1, page 19). This is clearly in line with the needs of the region, with its large vulnerable population (including a substantial ageing cohort), a growing informal sector without life or health insurance, and increasing numbers of socially vulnerable migrants to cities. All these issues were highlighted in the Asian Development Outlook³⁶ prepared around the same time as the LTSF. The scale of the challenge was reflected in weak social indicators in many DMCs, particularly for women and

³⁵ Working Group on Rural Poverty. 2007. *Rural Poverty Reduction and Inclusive Growth*. Manila.

³⁶ ADB. 2000. *Asian Development Outlook 2000*. Manila.

children (who make up a disproportionate share of the poor) in terms of high infant and maternal mortality rates and low access to social services.³⁷ The AFC also raised awareness of the vulnerability of the poor and those with incomes just above the poverty line. The LTSF stipulates that ADB will support efforts toward equity and empowerment by addressing each of these concerns explicitly. Hence, the LTSF's emphasis on inclusive social development is timely, because it tries to address some of the non-income aspects of poverty emerging in the region. Given that ADB has had limited experience in some areas of inclusive social development, the LTSF also indicates that adequate budgetary allocations are needed based on its compatibility with regional challenges, DMC priorities, and ADB's past experience and future potential. The relevance of the inclusive social development strategic area of the LTSF is rated high.

43. **Response.** While the LTSF defines inclusive social development to include investments in social support programs and policy reform that promote equity and empowerment, especially for women and disadvantaged groups, operational clarity is lacking regarding which areas to emphasize. In 2004, the EPRS elaborated the concept of inclusive social development to include human capital, social capital, social protection, population policy, and gender.³⁸ Following the LTSF, various policy and strategic changes were made to accommodate a focus on inclusive social development (e.g., Social Protection Strategy,³⁹ Gender Action Plan,⁴⁰ Education Policy,⁴¹ strategic response to HIV/AIDS⁴²). Although the January 1997 operational procedures for incorporation of social dimensions into ADB operations⁴³ were revised in April 2007,⁴⁴ they too did not emphasize specific areas of social development for ADB focus to enhance development effectiveness. In the absence of a strategic emphasis on a few selected areas and with the limited staff expertise available in ADB, efforts in the area of inclusive social development carried out under the LTSF have been diffused.

44. Prior to the LTSF, ADB had gathered valuable experience in investing in primary education and basic health care in several DMCs. Between 1995 and 2000, about 10% of ADB's public sector portfolio focused on education and health sector projects. Gender issues were first addressed in ADB in 1985,⁴⁵ and in 1992 they were reinforced by adding women-in-development as one of ADB's five strategic development objectives. In 1998, the Policy on Gender and Development⁴⁶ adopted mainstreaming gender issues as a key strategy for promoting gender equity. Therefore, ADB had adequate experience to address social sector and gender issues. However, since experience in other aspects of social development was limited within ADB as well as in DMCs, the LTSF calls for strengthening expertise in this area through adequate budgetary allocations (footnote 1, page 20). Although there was a modest increase in staffing, arguably it was not enough to create a critical mass of expertise. The share of ADB-wide professional staff working on social development (including the health and education sectors) at the time of LTSF formulation was 4.2%, and this share increased to 5.5% in 2003 and to 5.8% in 2007 (Working Paper 3, Figure 2). After the 2002 reorganization, some social development specialists were relocated to the regional departments. Commenting on this

³⁷ ADB. 2006. *Key Indicators 2006: Measuring Policy Effectiveness in Health and Education*. Manila.

³⁸ This paper adopts a broader definition of inclusive social development to include all the safety net type areas mentioned in the EPRS, as well as social sector operations such as education and health.

³⁹ ADB. 2001. *Social Protection Strategy*. Manila.

⁴⁰ ADB. 2001. *Gender Action Plan 2000–2003*. Manila.

⁴¹ ADB. 2002. *Education*. Manila.

⁴² ADB. 2005. *Development, Poverty and HIV/AIDS: ADB's Strategic Response to a Growing Epidemic*. Manila. HIV/AIDS stands for human immunodeficiency virus/acquired immunodeficiency syndrome.

⁴³ ADB. 1997. *Guidelines on Operational Procedures (GP): Incorporation of Social Dimensions into ADB Operations*. Manila.

⁴⁴ ADB. 2007. *Operations Manual (OM): Section C3/Bank Policies (BP): Incorporation of Social Dimensions into ADB Operations*. Manila.

⁴⁵ ADB. 1985. *Role of Women in Development*. Manila.

⁴⁶ ADB. 2003. *Gender and Development*. Manila.

move, the Implementation Review of the Policy on Gender and Development⁴⁷ mentions that “subsequent organizational changes resulted in weakened capacity and some confusion on gender as a crosscutting concern.... The 2002 reorganization relocating two gender specialists in regional departments resulted in the loss of critical mass, their location in a sector division constrained their potential to work across sectors, and only two gender specialists are left to coordinate ADB-wide gender and development policy implementation.”

45. In response to the LTSF’s emphasis on social development and the operating principle of country focus, various assessments were carried out at the country level (i.e., gender assessments, poverty, and social analysis). However, a 2002 gender report⁴⁸ pointed out that “since 1998, gender assessments have increasingly been included in CSPs and CSPUs, but ‘upstream’ assessment is yet to be reflected in the pipeline of loans, projects, and programs.” According to the survey sample, CSPs were geared generally to overall poverty reduction efforts that would indirectly reduce vulnerability rather than to comprehensive programs of social development as envisaged in the LTSF. They focused mainly on investments for “soft” social sector infrastructure, especially for education. Even so, social sector investments for the health sector declined during 2001–2006. Of the five CSPs and CAPEs reviewed, social development concerns were generally covered under the poverty focus or under health, education, and water supply and sanitation, but separate attempts were generally not made to address the empowerment and vulnerability of the aged, the youth, or the disadvantaged. However, the Lao PDR CSP mentions targeting of ethnic minorities and women directly, and the Sri Lanka CSP aims to increase access of the poor to social services and mainstream gender concerns.

46. Following the LTSF and the PRS, various funds were set up to address concerns relating to inclusive social development (i.e., the Cooperation Fund for the Formulation and Implementation of National PRSs, Poverty Reduction Cooperation Fund, and Gender Development and Cooperation Fund), and these funds allowed opportunities for piloting the development of baseline information in this area.⁴⁹ For example, a composite social protection index has been constructed for 33 countries to provide a benchmark and lay the groundwork for understanding the gaps in social development in individual countries.⁵⁰ ADB could have leveraged its limited resources by partnering with other development partners. However, in the five CSPs reviewed, there were limited strategic alliances with other partners.

47. In summary, the response to the inclusive social development focus in the LTSF was relatively low. A number of policies were developed, and staff resources were enhanced somewhat. Generally, the direct social development projects that promote equity and empowerment are complex, and there were gaps in DMC baseline information on social development issues. Consequently, the time and resources that had to be spent to develop such projects were substantial, and this appears to have lowered the numbers that could be approved. Further, the fact that such projects were not central to many CSPs in part reflects both that non-Asian Development Fund (ADF)-eligible DMCs were reluctant to borrow ordinary capital resources (OCR) funds⁵¹ for non-income generating projects and the limited availability of ADF financing. Based on the lack of direction in the CSPs to emphasize inclusive social development, the limited response to the LTSF operating principles and the limited response in building a critical mass of staff strength in this strategic area, the response to inclusive social development is rated low.

⁴⁷ ADB. 2006. *Implementation Review of the Policy on Gender and Development*. Manila (page 31).

⁴⁸ ADB. 2002. *Interim Progress Report on the Policy on Gender and Development*. Manila.

⁴⁹ ADB. 2003. *Technical Assistance for the Social Protection Index for Committed Poverty Reduction*. Manila (TA 6120-REG, for \$600,000, approved on 27 August); and ADB. 2006. *Scaling Up of the Social Protection Index for Committed Poverty Reduction*. Manila (TA 6308-REG, for \$900,000, approved on 14 March).

⁵⁰ ADB. 2006. *Social Protection Index for Committed Poverty Reduction* (RETA 6120 and RETA 6308). Draft. Manila.

⁵¹ Currently, some countries like the PRC and India are not eligible for ADF funds.

48. **Results and Results Positioning.** The impact of the LTSF on results has been low when judged by its influence over new projects. The DMCs may be reluctant to borrow for these social development areas (schooling, health, etc.) because of (i) fiscal space created by other activities, (ii) the highly political nature of the activities, (iii) difficulties in monitoring outcomes for these projects, (iv) non-availability of soft funds, (v) availability of funds from other aid agencies, and (vi) the perceived lack of ADB's comparative advantage (i.e., relative strength) in these areas.

49. Of the relatively few social development projects that were carried out, many had synergies with other sectors like the financial sector (social security reform and pension reform) and education. Under the thematic classification, the share of all multitheme loans and grants that carried an inclusive social development classification (including education, health, gender, and multiple themes), relative to the total number of loans and grants, averaged 43% in the 6 years before the LTSF compared with 28% in the 6 years after. The share of total loans classified under inclusive social development as a single theme dropped from an average of 37% to 11% during the same period. The number of loans addressing social infrastructure also diminished, with the average number of education and health sector loans dropping from 12 per year between 1995 and 2000 to an average of 9 per year between 2001 and 2006 (Working Paper 3, Table 8).⁵² Meanwhile, lending amounts to the education and health sectors also dropped by 51% from the 1995–2000 period to 2001–2006 (Working Paper 3, para. 47). While some TA operations were also carried out to address social development issues, the proportions are difficult to ascertain due to changes in thematic classification. Recent analytical work under TA has gone some way to raise awareness of these issues.

50. Since the LTSF, ADB has tended to give greater emphasis to maintaining or improving the living conditions of people who have been affected by resettlement associated with ADB-financed projects. Many social development aspects are covered under ADB's safeguard requirements, especially project impacts on ethnic minorities and vulnerable groups. Other attempts have also been made to focus on vulnerable groups affected by HIV/AIDS and the trafficking of women and children, but many of these efforts have been at a project rather than at a strategic level.

51. Despite the emphasis in the LTSF, only a few special loan projects or programs directly targeted the disadvantaged, the youth,⁵³ and the aged. Direct social development is a new area for borrowing in DMCs, and there is relatively little awareness of the need for social development efforts other than in the health and education sectors. In the light of this relatively weak response, the MTS II argues that the safety net aspects of social development are best left to government or nongovernment organizations, although it does retain health in its group II (maintain activity) category. Some outputs from recent TA operations provide opportunities to develop future collaborative partnerships in this area. Based on the absence of a critical mass of direct efforts to address inclusive social development as envisaged in the LTSF, the limited value added from nonlending projects, and the focus on project-specific vulnerability issues rather than systematically addressing these in the country context, the rating for results and results positioning for inclusive social development is low.

C. Governance

52. In 1995, ADB produced a Governance Policy,⁵⁴ which defined a focus for ADB's governance activities including ensuring both that governance issues were considered in the

⁵² Data classification issues do not allow meaningful reporting of loan values approved for inclusive social development (Appendix 4). The share of loan values for social sectors (not including other social development aspects) dropped from 10% in the 1995–2000 period to 6% in 2001–2006.

⁵³ An HIV/AIDS-related project targeted youth in Viet Nam.

⁵⁴ ADB. 2005. *Governance: Sound Development Management*. Manila.

context of ADB's operations and the participation of all stakeholders. This was followed by an Anticorruption Policy in 1998,⁵⁵ which built on the governance policy by ensuring that the fundamental building blocks for transparency, participation, predictability, and accountability were in place. In 2000, a medium-term agenda and action plan for promoting good governance was approved with the overall objective of making ADB take the lead role in promoting good governance in the Asia and Pacific region. The LTSF envisages ADB to further promote good governance in partnership with the DMCs and allowing for the diversity of DMC circumstances and requirements. It also states that capacity building will be a focus of ADB's country assistance strategies, and emphasizes ADB's support for the involvement of nongovernment organizations in the design and implementation of projects and in service delivery. A policy review in 2006⁵⁶ found that there was room for improvement in the areas of TA and staff resource allocation, and the responsiveness of governance and sector assessments to policy objectives, and that integrating governance and institutional development with infrastructure investments had become less effective. These issues were partly addressed in the Second Governance and Anticorruption Action Plan (GACAP II),⁵⁷ which focuses on three key areas of public financial management, procurement, and combating corruption. Recognizing that good governance plays an important role in achieving development effectiveness, ADB also adopted a performance-based allocation system for ADF resources with highest weight (50%) on good governance and public sector management. Further details are provided in Working Paper 4.

53. **Relevance.** Both the LTSF and the MTS I recognized the importance of governance and institutions for improved DMC performance. The LTSF used a comprehensive definition of governance (footnote 1, Appendix 2, page 55), which included different aspects from national and corporate governance and capacity development to community participation in decision making. Succeeding reviews and plans have highlighted the anticorruption, sector-level governance, and capacity-building aspects of good governance (Working Paper 4). The 2004 review of the PRS⁵⁸ and the 2007 Medium-Term Action Plan⁵⁹ for integrating capacity development into country programs and operations recognized capacity building/development as a crosscutting theme. In terms of addressing governance concerns at the country level, the review of a sample of CSPs and CAPEs concludes that (with the exception of Uzbekistan), country operations in general have been responsive to the governance challenges identified in the LTSF and the MTS I, in that governance issues were at the forefront of ADB's country strategies and DMC's development priorities. Based on the foregoing, the relevance rating for governance is high.

54. **Response.** The review of CSPs and CAPEs of the sample countries found that they were responsive to governance issues identified in country development objectives and priorities, except for one country (Papua New Guinea), where it was found partly responsive (Working Paper 4, Table 1). ADB has continued to provide assistance in the non-anticorruption areas of governance, but to a certain extent these efforts have been diffused, with no clear guiding strategies in areas such as law and policy reform. Also, although GACAP II sets out a relatively narrow role for ADB in governance, it makes only a passing reference to the LTSF and its broad governance definition. It also does not seek to fully address national level governance issues that are included in the performance-based allocation system of ADF IX. This is due partly to the limited capacity of ADB to expand the governance agenda. The number of recognized governance specialists in ADB is small (in February 2005, there were only 12 posts with governance in the title), and they have been dispersed across regional departments and

⁵⁵ ADB. 1998. *Anticorruption*. Manila.

⁵⁶ ADB. 2006. *Review of the Implementation of ADB's Governance and Anticorruption Policies*. Manila.

⁵⁷ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

⁵⁸ ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila.

⁵⁹ ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

resident missions. While there has been a substantial increase in loans classified as governance loans (partly as a result of changes in the classification system), those with governance as their primary theme remain only a small share of total ADB loans.

55. The separation of capacity development from governance as a thematic area following the 2004 PRS review (footnote 58) has moved away from the understanding of governance as set out in the LTSF, which is also reflected in the performance-based allocation system, which covers many areas of governance not focused on by GACAP II, e.g., property rights, quality of public administration, and transparency.

56. Recently, with the introduction of GACAP II, ADB's strategy has been refocused on sector-level governance for those sectors wherein ADB is active rather than country-level governance wherein the existing country governance assessments are being replaced with the requirement for country teams to have up-to-date knowledge concerning governance issues as they might affect ADB's portfolio performance. This tends to give the impression of "ring fencing" rather than help DMCs in governance reforms.

57. Through TA operations, there have been some successes in setting governance frameworks, for example, the successful governance TA activities in the PRC, which have focused on regulatory and legal reform. However, the 2007 PRC CAPE⁶⁰ finds that there are concerns over whether ADB has the critical mass of governance expertise required to be viewed as a leader in the sector. Overall, the relatively narrow focus on anticorruption aspects of governance has resulted in a tendency for insufficient attention to be given to a multidimensional approach that takes into account local participation and circumstances as well as the need for public sector institutional governance development at the country level. Even so, there have been several successful governance loans. Lending volume to governance (LEMPP) has been on the rise in recent years (Table 4).

58. As mentioned above (para. 54), overall the surveyed CSPs were responsive, both to governance challenges identified in the LTSF and the MTS I and to governance issues identified in country assessments. However, these findings are indicative only, since governments did not always identify or prioritize governance issues, and CSPs were variable in the degree to which they addressed governance. The response rating for governance focus in the LTSF is, therefore, medium.

59. **Results and Results Positioning.** As in other areas, the LTSF does not set specific targets as to what ADB wants to achieve under the strategic area of governance for effective policies and institutions, and there appears to be little incentive within ADB to monitor and evaluate governance activities. There is no database on ADB-wide resource allocations for governance.

60. Of the number of loans that have had governance as one of their themes, around half have supported what was termed public governance, covering administrative and civil service reform, decentralization, and public financial management; around one third have covered what was termed financial and economic governance; and 10% have been for civil participation. In practice, within these headings, much of ADB's work has focused on governance risks in individual DMCs. This emphasis has largely reflected supply side requirements rather than DMCs' needs and has led to a concentration on anticorruption programs and public sector financial management in governance operations. This was recognized in the 2006 GACAP

⁶⁰ ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China: Success Drives Demand for More Innovative and Responsive Services*. Manila.

review (footnote 56). Given the constraints on ADB governance activity, results in this area have been focused on a narrower aspect of governance than intended in the LTSF.

61. The SES on TA performance⁶¹ found that advisory TA projects classified in the governance sector performed relatively weakly when compared with other sectors. A sample of 13 TA operations (from Fiji Islands, India, Kyrgyz Republic, Philippines, and Viet Nam) were rated overall as “partly successful.” Governance TA operations were particularly weak when examined for sustainability, owing to lack of internalization by executing agencies and respective recipient governments in the DMCs. This can be partly explained by the focus on training as a key (and sometimes only) component of capacity building in a TA, since once training has been completed, individuals may change positions and jobs and take their knowledge with them. On the other hand, there has been good progress in partnering with nongovernment organizations and improving accountability standards at the corporate level. Given the analysis above, the initial results and results positioning rating of the governance area is medium.

IV. THEMATIC AREAS

62. The three core areas in the LTSF are complemented by three crosscutting themes (promoting private sector development, supporting regional cooperation and integration, and addressing environmental sustainability) that both broaden and deepen the impact of the core areas of intervention. The following sections present a summary of the detailed discussions on these thematic areas (see Working Papers 5, 6, and 7 for further details).

A. Private Sector Development

63. The LTSF’s emphasis on promoting the role of private sector development builds on the Private Sector Development Strategy,⁶² which recognizes the central role of the private sector and of markets in the development process and defines ADB’s strategic thrusts (para. 9). The LTSF responds to the challenges of mobilizing private sector resources to address the region’s increasingly complex development agenda (footnote 1, page 15).

64. **Relevance.** The private sector development theme of the LTSF is highly relevant to DMC demands. A recent survey of DMC opinion leaders⁶³ indicates that majority of the respondents think ADB should assign high priority to both poverty reduction and private sector development. In 2006, ADB concluded a review of the Private Sector Development Strategy,⁶⁴ which found that demand for private sector development in the Asia and Pacific region is increasing with the rise of globalization and international integration.

65. Private sector development is highly relevant to DMC development challenges. Private sector development activities identified in the LTSF are highly relevant to development needs as demonstrated by the strong theoretical and empirical evidence linking poverty reduction, economic growth, and private sector development. And, there is a huge need for financing infrastructure in DMCs, which is not possible through public sector resources alone. The three components of the Private Sector Development Strategy consist of (i) creating an enabling environment, (ii) generating business opportunities, and (iii) catalyzing investment. All three components are highly relevant and represent a business process ranging from public sector

⁶¹ ADB. 2007. *Special Evaluation Study on Performance of Technical Assistance*. Manila.

⁶² ADB. 2000. *Private Sector Development Strategy*. Manila.

⁶³ ADB. 2006. *ADB Perceptions Survey: Multinational Survey of Opinion Leaders 2006*. Department for External Relations. Manila.

⁶⁴ ADB. 2006. *Private Sector Development: A Revised Strategic Framework*. Manila.

through to private sector operations, where each component follows logically and is dependent upon the preceding component.

66. Private sector development is highly consistent with ADB's comparative advantage. The Private Sector Development Strategy's components take advantage of ADB's natural comparative advantages of (i) being the only international financial institution with headquarters in Asia, (ii) having long experience in providing assistance to DMCs to develop infrastructure and strengthen financial institutions and markets, (iii) providing services to both the public and private sectors, and (iv) providing a full range of direct (equity and debt) and indirect (guarantees) financial services to both the public and private sectors. Apart from the European Bank for Reconstruction and Development in Central Asia, no other international financial institution in the region can provide this range of services from one organization. While this capacity exists within ADB, it is apparent that the realization of the full potential of these comparative advantages requires strong linkages and synergies between public and private sector operations in ADB. The relevance of the private sector development focus in the LTSF is rated as high.

67. **Response.** The LTSF provides strategic guidance for harnessing public sector and private sector synergies. It is envisaged in the LTSF that the CSPs will act as the link between public and private sector planning and operational activities. Country-specific private sector development strategies are to be based on private sector assessments. A review of the CSPs and private sector assessments indicates that they have not played a meaningful role in pursuing private sector development initiatives. Public sector operations have contributed to improving the investment climate by assisting DMCs in infrastructure development, financial sector reform, and governance reform. For example, ADB-supported specific reforms have included competition policy, privatization, secured transaction registration, leasing, and the definition of property rights to support sustained private sector investment. However, there have been only limited cases (Working Paper 5) where entry points were created for Private Sector Operations Department (PSOD) transactions such as public-private partnership and sector road maps indicating how private sector participation would be achieved. PSOD also does not formally report back to the regional departments on private sector constraints.

68. The institutional arrangements in ADB are considered partly responsive to private sector development by a recent OED study.⁶⁵ Public sector operations were restructured as regional departments, and some resident missions were strengthened, increasing the potential for greater client responsiveness. Initially, PSOD was assigned the role of acting in a support capacity and, therefore, could only respond to reforms initiated by the regional departments or third parties external to ADB. Until recently, most resident missions had a few or no staff responsible for private sector development and operations. The Private Sector Group was upgraded to a department in 2002 and renamed PSOD. The Office of Cofinancing was strengthened, and new partial guarantee products for political and credit risks were introduced to complement cofinancing instruments. A Risk Management Unit was established within PSOD (to help address issues associated with bad debts that arose primarily as a consequence of the AFC), and in 2005 it was shifted out to an independent unit under the President's group.

69. During implementation of the LTSF, ADB has been partly responsive to the human and financial resource needs of PSOD. Only five staff were recruited in the regional departments to pursue private sector development initiatives, subsequent to the 2002 reorganization. While PSOD staff numbers increased (from 29 in 1995 to 67 in 2006), this adjustment has been much less than the proportional increase in transaction volumes. A peer comparison with the European Bank for Reconstruction and Development and the International Finance Corporation

⁶⁵ ADB. 2007. *Special Evaluation Study on Private Sector Development and Operations: Harnessing Synergies with the Public Sector*. Manila.

undertaken by OED in 2006⁶⁶ indicates that PSOD is severely understaffed relative to the demands from clients, volume of business, and portfolio management requirements.

70. PSOD was initially established as a service department for the public sector-based regional departments. As a result, it was not given access to TA funding until 2005, and then only \$3.0 million was allocated, although this was subsequently increased to \$5.0 million in 2006.

71. As to monitoring and evaluation requirements, implementation of the LTSF has been modestly responsive. The LTSF does not set specific quantitative targets as to what ADB wants to achieve in regard to private sector development. The MTS I and CSPs did not define and collect relevant baseline data against which the performance of ADB's private sector development activities could be measured. At the country level, there are only a set of broad indicators such as foreign direct investment flows, share of private sector in the gross domestic product, and transfer of public sector capital to private sector or increase in private sector stocks, as appropriate. Progress is monitored through annual and/or periodic perception surveys of investors (e.g., as reported in the investment climate and country competitiveness index).

72. There are conceptual problems with the portfolio classification system, as it does not define the intensity of private sector development projects. There is no formal feedback mechanism from PSOD to regional departments on critical private sector development constraints. Reports are not prepared on impacts at the country, sector, departmental, or project levels relative to forecast performance, using the balanced score card principles originally envisaged in the Private Sector Development Strategy. Based on the review above, the implementation response to private sector development is rated as medium, implying that there is need for intensifying the response.

73. **Results and Results Positioning.** While PSOD transactions have substantially grown in recent years, creating a business enabling environment has been modest due to insufficient synergy between ADB's public sector operations and PSOD operations. Weaknesses in CSPs, coupled with a lack of targets and monitoring arrangements, led to a situation wherein (i) the public and private sector sides of ADB did not work together effectively to develop niches and create synergies; (ii) the country programs did not have a clear strategy that positioned ADB to have a strategic impact in this area; (iii) while the regional departments undertook some activities (support to infrastructure, financial sector and regulatory reforms, policy dialogue) to improve the enabling environment, these efforts were scattered across sectors and countries; and (iv) ADB's success in improving the business climate was mixed.

74. Most regional department efforts to generate business opportunities have consisted of funding state-owned and -operated infrastructure and issuing sovereign guaranteed credit lines, which are both weak forms of supporting the private sector. While there have been exceptions, most business generation activities have occurred in the power sector, and where they occurred were generally successful. An important feature that emerges from an analysis of ADB projects to generate business opportunities is that, to the limited extent they occurred, they were focused on single projects. There were only a few examples wherein ADB helped create public-private partnerships to procure multiple privately financed projects on an ongoing basis.

75. While catalyzing investment is major objective of PSOD operation, results in this regard have been moderate. An important feature of PSOD transactions is the extent to which they are

⁶⁶ ADB. 2006. *Annual Report and Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2005*. Manila (pages 100–111).

additional, mitigated risks, and genuinely catalyze new investment. Additionality appears to have been present to a material degree in the majority of the private sector transactions that were reviewed, although initiatives were primarily reactive, and coverage by country and sector was quite narrow. In general, PSOD operations have been successful (footnote 65).

76. Private sector lending expanded significantly in 2005 and 2006 with a growing share of infrastructure projects, principally in the power sector. These latter investments were made possible by the unbundling reforms pursued in a number of countries in collaboration with the regional departments.⁶⁷ There has been much less private activity in sectors like transport and water. PSOD has made significant progress in its catalytic role in mobilizing funds for private sector projects. On average, for each dollar lent by ADB, nearly \$7 has been brought in from external sources; and in 2005 and 2006, funds mobilized exceeded ADB's public sector lending by 67% and 26%, respectively (footnote 65).

77. Findings from CAPEs support the findings from CSPs highlighted in para. 73. The lack of focus on sector road maps and private sector alternatives means that country strategies and private sector assessments often had little relevance for the private sector. Nevertheless, feedback from most private sponsors interviewed about the benefits of their involvement with ADB was encouraging, and this conclusion was confirmed by the demand for services reported in the ADB perceptions study conducted in 2006 (footnote 63). Some sponsors consider that ADB's involvement was critical as a means of enhancing creditworthiness and catalyzing commercial funding (Working Paper 5).

78. A review of OED's project performance evaluation reports found that private sector projects have a high success rate (92%) relative to other sectors in ADB's portfolio (footnote 65). Progress in improving the investment climate in a number of DMCs may have been slow, and ADB private activity may be low relative to the potential but there are also some real achievements (paras. 75–76). The overall initial results and results positioning for private sector development under the LTSF rating is medium. Further details are presented in Working Paper 5.

B. Regional Cooperation

79. ADB brought out its policy for regional cooperation in 1994. The LTSF reflects the need to support the development of DMCs through cooperation, to provide wider development options through greater access to resource markets, to address shared problems that stretch across borders, and to take advantage of opportunities for sharing knowledge and information (footnote 1, page 15).

80. **Relevance.** Recent development in Asia has been greatly influenced by global forces, increasing intraregional trade and investment flows, and the spread of global production networks driven by mobile capital. As a result, cooperation networks and partnerships including the ASEAN Free Trade Area, the South Asian Association for Regional Cooperation, and subregional economic cooperation initiatives (the Greater Mekong Subregion [GMS], Central Asia Regional Economic Cooperation [CAREC], and South Asia Subregional Economic Cooperation [SASEC]) have grown in importance through their support for increasing intraregional integration. Furthermore, countries are increasingly more attracted to regional cooperation for financial and economic surveillance and sustainability; cross-border initiatives for poverty reduction in border towns; trade facilitation through infrastructure development and procedural harmonization; simplification of border formalities; fighting the spread of public health risks, environmental degradation, and illegal trafficking; information and communications technology; and tourism.

⁶⁷ ADB. 2007. *Special Evaluation Study on Energy Policy 2000 Review: Energy Efficiency for a Better Future*. Manila.

81. The share of intraregional trade in total Asian trade rose from 42% in 1990 to 51% in 2005.⁶⁸ The rapid economic growth in the PRC has been a major driver in this process, with neighboring countries sending an increasing share of their exports to the PRC. This is often as part of a triangular trade, with the PRC importing parts and components (typically from ASEAN) or capital equipment and technology (typically from Japan and the Republic of Korea) and converting these into finished products for export to North American and European markets.

82. The AFC underscored the importance of integrating and safeguarding regional financial markets and highlighted the need for increased monetary and financial cooperation to ensure economic and financial stability in the region. The emergence of regional processes such as the ASEAN Surveillance Process, the ASEAN+3 Finance Ministers Process, and the ASEAN Swap Arrangement have set the initial conditions for greater monetary and financial integration.

83. A further area for cooperation lies in addressing problems associated with regional public goods. Breaking down physical and nonphysical barriers has brought prosperity to Asia, but there is also rising concern over consequent adverse health and environmental issues. Severe acute respiratory syndrome and the avian influenza epidemic have had serious economic repercussions. The rapid spread of HIV/AIDS along economic corridors has also been a cause for concern. Addressing these requires multicountry coordination and cooperation, as increased mobility has also improved the chances of spreading these communicable diseases.

84. The recent survey of opinion leaders on their perceptions of ADB (footnote 63) reveals that demand for regional cooperation is high. A majority of opinion leaders hold the view that ADB places only moderate importance on supporting regional cooperation and that ADB should be doing more. ADB's performance at the subregional level is also reflected in the survey. The majority of surveyed GMS opinion leaders perceive regional cooperation as a high ADB priority, while a notable minority in South Asia and the Pacific believe that regional cooperation and economic integration are a low priority or not a priority at all of ADB.

85. The LTSF's focus on regional cooperation as an important crosscutting theme reflected both ADB's own charter and the process of natural cooperation that has occurred in the region, with closer trade and investment ties between countries often emerging prior to any formal agreements. Also, efforts to foster closer monetary cooperation through currency swap arrangements were one of the responses to the upheavals in financial markets caused by the AFC. Given the rationale for ADB involvement and continued strong interest among DMCs and graduated (nonborrowing) economies in the region (e.g., Malaysia, Thailand) in cooperation, the LTSF focus on regional cooperation is and will remain highly relevant.

86. **Response.** The LTSF recognizes that expanding ADB's role in regional cooperation requires increased financial and human resources. It commits ADB to a number of new initiatives, particularly information sharing between regional institutions and knowledge centers (footnote 1, page 27); a new regional cooperation funding facility (footnote 1, page 37); and the provision of a range of "regional public goods" for the environment, health, and finance (footnote 1, page 26).

87. ADB's response to these recommendations has been mixed and in some areas slow. There has been much reorganization of staff and responsibilities in relation to the implementation of regional cooperation, but arguably there is limited progress in unifying efforts across units. In 2002, ADB implemented a new organizational structure that promoted stronger country and

⁶⁸ International Monetary Fund Direction of Trade Statistics CD-Rom and CEIC database. Available: http://www.ceicdata.com/about_ceic.html

subregional focus by formulating and implementing more country-focused programs and enhancing subregional cooperation. One of the changes introduced by the new business processes was the preparation of the Regional or Subregional Cooperation Strategy and Program (RCSP)⁶⁹ and subsequent updates to provide both focus for, and a guide to, ADB's subregional cooperation assistance linking subregional with national projects. The essential objectives of the RCSP are to incorporate regional priorities into the operational pipeline and to complement country strategies and programming. The first RCSP was drafted in March 2004 for the GMS.⁷⁰ This was followed by the CAREC RCSP (2004)⁷¹ and the South Asia RCSP (2006).⁷² These were circulated to, but not discussed by, the Board.

88. A review of a sample of CSPs and RCSPs shows that they broadly follow the direction of the LTSF with the notable exception of knowledge management. However, a review of programmed loans for regional cooperation in these CSPs found that around half are not aligned with the programmed loans in their respective RCSPs, and only one third of the CSPs reviewed have regional cooperation programs that are aligned with their respective RCSPs (Working Paper 6).

89. There has also been a lack of effective coordination over regional cooperation initiatives and limited synergy among subregional and country partnership strategies (CPSs) and the regional cooperation and integration strategy. The Office for Regional Economic Integration (OREI) was created only in 2005 (by upgrading the Regional Economic Monitoring Unit, which was established soon after the AFC to undertake research, disseminate knowledge, and help build capacity in DMCs in financial and economic surveillance). Responsibility for regional cooperation is currently spread across the five regional departments, OREI, and the Regional and Sustainable Development Department (RSDD).⁷³ Knowledge dissemination, for example by RSDD, the ADB Institute, and OREI, has taken place, but not on a coordinated basis. The 2005 independent assessment of RSDD⁷⁴ (which had initially had key responsibility) revealed that RSDD's progress in supporting ADB's regional cooperation work had been mixed. While undertaking useful activities, particularly in liaising with international and regional institutions, it was not able to develop an ADB-wide strategy for regional cooperation, although it had initiated the process in 2004. Concerns were also raised over RSDD's ability to manage the large regional TA portfolio and deliver its regional cooperation mandate, given its modest resources. OREI took the lead and issued the regional cooperation and integration strategy in 2006.⁷⁵

90. There has been only a very modest increase in staff for the area (five over the period 2002–2005). Currently, 29 professional staff work in regional cooperation, largely in RSDD and OREI. ADB thus far does not have any substantive plan or activities in developing knowledge and skills among staff in the area of regional economic cooperation policy, strategies, and operations. Only a limited number of activities have been undertaken in the area of regional public goods (e.g., communicable disease control, environment, and human resource development for regional cooperation). ADB activity in the area has been important but has been concentrated largely in traditional infrastructure sectors and cross-border trade facilitation, as envisaged in the LTSF.

91. Despite the increasing importance of regional cooperation and ADB's expanded regional role, ADB's regional cooperation activities have been largely sourced from individual country

⁶⁹ Alternatively known as Regional Cooperation Strategy and Program.

⁷⁰ ADB. 2004. *The GMS Beyond Borders: Regional Cooperation Strategy and Program 2004–2008*. Manila.

⁷¹ ADB. 2004. *Building Partnerships for Development: Regional Cooperation Strategy and Program, 2004–2006*. Manila.

⁷² ADB. 2006. *Regional Cooperation Strategy and Program: South Asia 2006–2008*. Manila.

⁷³ It issued a report on regional public goods and services in early 2007.

⁷⁴ ADB. 2005. *Regional and Sustainable Development Department: Towards Greater Relevance and Effectiveness*. Manila.

⁷⁵ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

assistance programs. The Regional Cooperation and Integration Financing Partnership Facility⁷⁶ envisaged by the LTSF was approved by the Board in February 2007. However, in recent years, the demand for regional cooperation projects has increased and far exceeds ADB's capability to finance them. There has been a shift in TA fund allocation. The proportion of TA grants allocated to activities classified as "regional" increased from 21% in 2001 to 35% in 2005. In 2005, ADF IX donors allowed funds (up to 5% of total) to be earmarked for subregional projects in addition to those lent to a country using the performance-based allocation formula. During the same year, the PRC Regional Cooperation and Poverty Reduction Fund was set up, allocating \$20 million to promote regional cooperation and poverty reduction among ADB's DMCs. Given the rationale and opportunity, ADB's response to the implementation of regional cooperation is rated only medium, implying that there is scope for further improvement.

92. **Results and Results Positioning.** In terms of results, the LTSF reinforces ADB's already expanding support for regional cooperation. The three regional groupings of GMS, CAREC, and SASEC had already been established prior to the LTSF, but lending to them increased. All loans to SASEC and all but two loans to CAREC were approved after 2001, and roughly 60% by value of GMS loans were approved after 2001. To a certain extent, principally for the GMS, ADB has played an important catalytic role in mobilizing external funds from bilateral donors, other multilateral agencies, and the private sector. For the GMS, demand for funding for subregional projects is high and well beyond what ADB can finance, with a forecast funding gap of \$5 billion over 2004–2008 (GMS RCSP).

93. ADB has also actively supported regional cooperation and integration efforts in a broader regional context. For example, ADB has supported the development of early warning systems against the recurrence of financial crises in selected ASEAN+3 countries through regional TA. ADB has also promoted regional economic policy dialogues by providing technical support to the Asia-Pacific Economic Cooperation, Asia-Europe Meeting, Asian Bonds Market Initiative, and the World Trade Organization's Aid for Trade program. It has also worked with other aid agencies in the provision of regional public goods in the areas of public health, public safety, and environment.

94. ADB could have undertaken more innovative regional public goods activities as envisaged in the LTSF, but it has provided significant support for subregional projects, mainly in transport and power. In the GMS and CAREC, it has also supported efforts to facilitate trade flows across borders. In the nonlending area, the GMS program has provided a valuable facilitative role for regional dialogue, leading to an unprecedented and sustained level of dialogue at the ministerial level, a number of bilateral and multilateral agreements, and increasing participation of key stakeholders. CAREC and SASEC have also started to have similar regional impacts. The continued rapid development of regional supply chains suggests the need to extend further ADB's efforts at trade facilitation and other measures to facilitate cross-border transactions and open regional integration.

95. It may not be plausible to attribute all post-2001 regional initiatives to the LTSF, given that ADB formally adopted a regional economic cooperation policy in 1994. But, in general, while more coordinated action on regional cooperation operations (e.g., bringing together RCIS, RCSPs, and CSPs), mobilizing external resources, revamping work on regional public goods, provision of staff training on regional cooperation policy, strategy, and operations; and adequate staffing could have been taken by ADB; results and results positioning after 2001 have been largely positive. A rating of medium is, therefore, assigned to the regional cooperation theme of the LTSF in terms of initial results and results positioning.

⁷⁶ ADB. 2007. *Regional Cooperation and Integration Financing Partnership Facility: Establishment of the Regional Cooperation and Integration Fund, and Regional Cooperation and Integration Trust Funds*. Manila.

C. Environmental Sustainability

96. The LTSF argues that environmental considerations should be in the forefront of all development decision making and planning in DMCs and in all ADB initiatives. It advocates not only stopping but reversing the enormously costly degradation and damage to the environment that has already occurred (footnote 1, page 15).

97. **Relevance.** According to the Emerging Asia Study (footnote 5) and Asian Environment Outlook,⁷⁷ pollution appeared to be the most urgent problem facing the region in 2001, followed by the degradation of natural resources. The size of the affected countries in the region makes the adverse effects significant globally. In Asia, estimates of the economic costs of environmental degradation in 1997 ranged from 1% to 9% of a country's gross national product, depending on the country and the impacts included in the estimates (footnote 5). The expectation is that these costs have risen since then, given the continued deterioration evident from environmental indicators (Working Paper 7). The LTSF also notes that ADB should address environmental issues that have impacts across borders, such as shared watershed management and pollution from forest fires. It further mentions that specific market and other failures that aggravate environmental problems ought to be addressed by relying on more economic instruments and incentives, as well as regulatory controls. Given the severity of the problems, it indicates that environmental degradation has to be not only stopped but reversed in key areas, and the links between poverty and environmental degradation must be broken (footnote 1, page 28). It also establishes the connection between disasters and poverty with environmental issues, and emphasizes the need for an integrated resource management approach. Therefore, the LTSF is highly relevant in trying to address regional environment challenges. These multiple objectives, however, dilute ADB's focus on environmental sustainability and potentially introduce trade-offs among growth, poverty reduction, and the environment. Based on the LTSF's recognition of the need to reverse substantial environmental degradation in the region and ADB's comparative advantage and experience to address environmental concerns including in cross-border issues, the relevance rating for the environmental sustainability theme in the LTSF is high.

98. **Response.** The concept of "sustainable growth" reflects current thinking, but it has not been fully operationalized by either the LTSF or the MTS I. The 2004 EPRS confirms that, since poverty reduction is the overarching goal of ADB, other objectives should be pursued in ways that contribute most effectively to poverty reduction. In practice, given the poverty reduction mandate that lay behind the LTSF and the EPRS guidance, some operations have handled trade-offs among the environment, growth, and poverty in favor of poverty concerns. For example, both the Uzbekistan and PRC CAPEs show examples of how environmental pricing of natural resources was overridden by socioeconomic concerns. The 2007 Environment Infrastructure Nexus paper⁷⁸ confirms that there are often political pressures for local or national governments to underprice water, electricity, and fuel to protect the poor, even though studies have shown that these end up providing disproportionately large benefits to higher income people. Underpricing intensifies environmental damage by leading to artificially high demand and, therefore, more intensive resource consumption.

99. Operationalizing the LTSF's sustainable growth strategic focus has also become difficult, as there is less operational emphasis on internalizing wider environmental considerations at the

⁷⁷ ADB. 2001. *Asian Environment Outlook*. Manila.

⁷⁸ Evaluation Cooperation Group. 2007. *The Nexus Between Infrastructure and Environment: From the Independent Evaluation Offices of the International Financial Institutions*. ECG Paper 1. World Bank, Washington, DC (page 17). Available: <http://www.ECGnet.org>

earliest stages of project design. In some past projects, environmental concerns were secondary, and there is no emphasis in the LTSF or the MTSF to change this pattern. For example, OED's SES on environmental mitigation measures⁷⁹ indicates that "EIAs prepared for the study plants were design rather than planning endeavors, and were often done after a green field site had been identified and power generation technology choices were decided... Rather, they simply indicated what had to be done, to ensure that the particular project in a pre-selected site would be in accordance with the environmental standards and guidelines." This issue is gradually being addressed in more recent projects. Despite the lack of clarity in the LTSF, the 2002 Environment Policy stipulates clearer and more effective procedures, increases time inputs for preparing summary initial environmental examinations, pays greater attention to policy alternatives, and increases focus on monitoring during implementation.⁸⁰

100. While ADB has generally focused efforts to address supply-side energy efficiency issues in DMCs, less attention has been paid to effectively addressing the demand side of energy use, especially in transport, which is acknowledged as the highest contributor of greenhouse gases in Asia.⁸¹ The LTSF also acknowledges the need to address the institutional weaknesses and policy failures that underlie environmental problems in DMCs. In response to this, as well as to the operational principle of country focus, country environmental assessments have been carried out since 2002 to understand the environmental needs of individual DMCs. However, an analysis of the sample of CSPs reveals that in the absence of strategically oriented environmental road maps, the responses in the CSPs are generally geared to investments that would either mitigate any by-product environmental damage or reverse ongoing environmental degradation. They rarely incorporate environment policy strategically in country programs. In the CSP analysis, only one of the five selected CSPs (Uzbekistan 2006⁸²) draws on the country environmental assessment, which indicates that many of Uzbekistan's environmental problems are directly related to weak natural resource management resulting from policy and institutional constraints. However, this CSP does not provide a strategic path for ADB to build on the findings of the environmental assessment. Hence, institutional issues relating to the environment tend to be addressed in a project context rather than more systematically at the country level (Working Paper 7).

101. Following the LTSF's direction on country focus and the 2002 reorganization, many environmental specialists were transferred from the center to the regional departments. These staff tended to initially focus on safeguard issues, accentuating the "do no harm attitude" in ADB projects, rather than emphasizing the reversal of environmental degradation. Another group was posted in the Environment and Social Safeguards Division of RSDD, tasked with helping the operations departments interpret the Environment Policy requirements for specific projects, providing operational support, and monitoring and reporting on compliance.⁸³ The decentralization of staff resources was widely perceived to have reduced the visibility of the environment within ADB activities, with ADB suffering a lack of leadership and initiative in the environment sector owing to the greater focus of environmental specialists on project-specific activities (footnote 83, para. 180). However, this weakness is now being addressed through new initiatives in clean development, conservation, and strategic environmental planning originating from both RSDD and the regional departments. Following the LTSF, there was a small increase in the share of professional staff working on environment, and the gap between those working predominantly on safeguard issues and those working directly on environmental improvements gradually narrowed. This suggests the growing importance accorded by ADB to doing more direct environmental work in line with the LTSF emphasis. Based on the general responsiveness of CSPs toward DMC

⁷⁹ ADB. 1998. *Special Evaluation Study of the Environmental Mitigation Measures in Selected Bank-Financed Projects*. Manila.

⁸⁰ ADB. 2002. *Environment Policy of the Asian Development Bank*. Manila.

⁸¹ ADB. 2007. *Supporting Provision of Regional Public Goods in the Asia and Pacific Region*. Manila.

⁸² ADB. 2006. *Country Strategy and Program. Uzbekistan (2006–2010)*. Manila.

⁸³ ADB. 2006. *Special Evaluation Study of Environmental Safeguards*. Manila (para. 7).

environmental concerns, lack of strategic direction on environment in CSPs, the improvements in strategic alliances, the lack of leadership in environmental improvements due to staff decentralization, and increased operational staff to handle environmental concerns beyond safeguard requirements, the responsiveness to the environmental sustainability focus of the LTSF is assessed as medium.

102. **Results and Results Positioning.** Prior to LTSF approval, the share of environment-related loans to total ADB loans averaged about 11% from 1995 to 2000, but this dropped to an average of 7% from 2001 to 2006. Those that had environmental sustainability as a single theme went down from 7.8% to less than 2%, suggesting lower prioritization for standalone environment projects in the post-LTSF period. Multitheme loans including the environment went up gradually from 5% in 2004 to 10% in 2006, indicating that loan complexity may be increasing. An analysis of the success rates of ADB loans for environmental sustainability reveals that ADB has been most successful in environmental projects that deal with cleaner production and control of industrial pollution, as well as urban environmental improvement.⁸⁴ The performance of natural resource management projects has been mixed owing to the presence of multiple stakeholders and weak institutional capacity and the absence of the long-term approach advocated in the LTSF. Poorer DMCs also tend to have lower demand for proactive environmental improvements, given the economic and social problems that they face. Such complexities and institutional limitations need to be clearly considered in operations design.

103. Following the emphasis in the ADB Environment Policy on reversing environmental degradation with a regional and a global focus, ADB has recently made substantial efforts in the areas of clean development mechanisms, carbon market initiatives, energy efficiency initiatives, and clean energy. ADB's contribution to these areas has provided some experience on which to build for the further development of these initiatives. These areas are opportunities for "win-win" results in the energy-environment area and provide an avenue to expand ADB's role for the environment as envisaged in the LTSF.

104. However, there are other grave environmental concerns in the area of ANR management relating to land degradation, as well as in some urban sector interventions in terms of localized water and air pollution and health problems, which may be neglected in the future if the focus is mainly on energy-environment issues.⁸⁵ For example, the SES on participatory approaches in forest and water resource operations⁸⁶ found that overuse of irrigation water in selected projects resulted in excess drainage water flowing to lagoons and destroying the lagoon environment. The SES on Urban Sector Strategy and Operations (footnote 32) found that the proportion of ADB's urban development projects addressing solid waste management had declined since 2000, with resulting concerns over health impacts. There are likely to be trade-offs between growth and poverty objectives on the one hand and environmental protection on the other. These issues are particularly important in the context of the poorer DMCs, whose demand for proactive environmental improvements is often low, given the other problems they face. However, where trade-offs are addressed, care must be taken not to create projects that are too complex to implement. Recent new approaches appear to be positioning more effectively to address wider environmental issues. Grants from other financing sources are important in softening the overall costs of ADB's environmental interventions. ADB has been quite successful in establishing such

⁸⁴ OED data on success rates of projects approved for which completion reports and evaluation reports were circulated from 1996 onward reveal that 92% of projects with the subtheme of cleaner production and control of industrial pollution were successful, compared with 75% of projects on urban environmental improvement and 44% of projects on natural resource management.

⁸⁵ ADB has, in the past few years, initiated efforts in the PRC and Central Asia to combat land degradation, and has made programmatic responses to natural resource management concerns in the GMS.

⁸⁶ ADB. 2003. *Special Evaluation Study on Participatory Approaches in Forest and Water Resource Operations in Selected Developing Member Countries*. Manila.

partnerships, particularly for regional TA, where externally generated funds rose by 260% from \$18 million in 1995–2000 to \$65 million in 2001–2006. These include substantial grants received from the Global Environment Facility, Netherlands Government, and Japan Special Fund.

105. Based on the drop in the lending portfolio for environmental concerns and the reduced focus on environment-related advisory TA; increasing volume of ADB efforts for environmental concerns through cofinancing; and establishment of partnerships and movement toward a critical mass approach to address energy environmental issues, the rating for results and results positioning of ADB for the environmental sustainability theme of the LTSF is medium.

V. THE LTSF'S INFLUENCE ON INSTITUTIONAL EFFECTIVENESS

106. Building on the findings on the individual LTSF strategic areas and crosscutting themes discussed in the preceding chapters, this chapter examines the LTSF's influence on the effectiveness of ADB as an institution and how this has affected the implementation of the LTSF (further details are presented in Working Paper 8). The response of ADB to the LTSF is examined in terms of organizational structure, operating principles, strategic planning and implementation, measurement of results, and external and internal perceptions. The LTSF establishes a series of new operating principles but also fundamentally refocuses ADB toward a country-driven rather than sector-driven operational model. This has had implications for all aspects of activity and has spawned a series of institutional change programs, including reorganization, which later collectively became the Reform Agenda.

107. The Reform Agenda was designed to enhance the effectiveness of operations through reform of policies, strategies, processes, and programs. However, the Reform Agenda is not a holistic or strategically driven institutional reform initiative, but a means through which various institutional reforms at varying stages of development were brought together. A recent progress report,⁸⁷ in addition to noting considerable progress in a number of areas, highlights a series of challenges faced in reform implementation. These include building internal capacity for MfDR, further delegation to resident missions, addressing cumbersome and inflexible business processes, addressing the need to becoming a learning organization, giving incentives to staff to develop partnerships, improving stakeholder perceptions of transparency, and improving ADB's ability to recruit and retain staff to support the Reform Agenda.

108. The preparation for reorganization of ADB was already under way when the MTS I was prepared, but the MTS I confirmed that ADB was to become more client focused and responsive to client needs through greater flexibility in structure, processes, and products. The new organizational structure was expected to result in a single accountability for each DMC, thereby ensuring more efficient and effective service delivery to clients. However, while new subject and sector specialists were recruited and staff numbers grew modestly in response to the priorities of the LTSF, it appears that the fragmentation of specialist skills across departments following reorganization prevented a buildup of a critical mass of professional competence in the new organizational units. The LTSF anticipates potential staffing issues, arguing that "delivering the agenda without adequate internal resources, both staffing and financial, will have an adverse impact on the quality of the institution's activities and its development impact, and ultimately will constrain DMCs' development in general and poverty reduction in particular" (footnote 1, page 46). The MTS I reiterated this and went on to say that "demands on administrative resources will increase significantly as, in spite of greater selectivity, assistance programs will become much more staff and skills intensive" (footnote 2, page 16). The MTS I and the LTSF clearly highlight the need to invest in human resources. The limitation of staff resources has been one of the key constraints affecting progress of the LTSF agenda (for example, in the areas of inclusive social

⁸⁷ ADB. 2007. *Progress on the Reform Agenda*. Manila.

development and private sector operations). Furthermore, a recent evaluation of ADB's Resident Mission Policy recommends the preparation of a decentralization strategy to enhance responsiveness to clients and to improve operational effectiveness and efficiency.⁸⁸

109. The LTSF defines a series of operating principles: ensuring country leadership and ownership of the development agenda, taking a long-term approach to development assistance, enhancing strategic alliances and partnerships, and measuring developmental impact. Against the operating principle of ensuring country leadership and ownership, the review of a sample of CSPs has shown that they broadly follow both the direction of the LTSF and its requirement for country orientation.⁸⁹ A summary of the evidence from the relevant CAPEs of the responsiveness of CSPs and RCSPs in relation to the LTSF reveals that all (except the CAPE for Uzbekistan) were rated as being either relevant or responsive to LTSF objectives (with the exception of the area of knowledge management) (Appendix 5). RCSPs were also found to be responsive to the LTSF (Working Paper 6). However, there is a lack of coherence among regional programs, RCSPs, and CPSs. RCSPs do not cover all DMCs in their respective regions; CPSs may not take into account the contents of RCSPs; and many regional projects involve only two DMCs (in contrast, the World Bank defines a regional project as involving three or more countries). The regional cooperation and integration strategy came in only recently (i.e., 2006).

110. In terms of taking a long-term approach to development assistance, the LTSF highlights the need for focus and prioritization, a point given more emphasis in the MTS II than in the MTS I. In responding to the LTSF requirement to enhance strategic alliances and partnerships, all sample CSPs showed responsiveness to strategic alliances and partnerships between funding agencies except in countries where other agencies chose not to prepare joint strategies or their level of country involvement changed.

111. As noted earlier on, the LTSF highlights the importance of organization and human resources, but it does not identify resource requirements, nor does it directly set out a monitoring and evaluation framework for tracking implementation. The LTSF action plan only sets out the timing for supporting documentation for MTSS, CSPs, 3-year rolling work program and budget frameworks, annual budgets, and planning directions. The MTS I did not set out clear accountabilities and responsibilities for the implementation of the LTSF at the corporate level; nor did it give specific guidance on the links between the LTSF and operations. This has made the monitoring of institutional progress under the LTSF difficult.

112. In terms of response to the LTSF (although its operating principles have been followed at the country level), based on the limited staffing increases in new areas and the absence of a consistent monitoring framework, ADB's response to improving institutional effectiveness under the LTSF is rated as medium.

113. In terms of a significant shift in activity and behavior since the LTSF, results have been limited. The country focus has been successfully embedded in operations, as have some of the key principles on poverty and growth. However, as noted above, available figures for lending continue to show a focus on infrastructure. The LTSF does not set out required resources for its implementation, and there is no evidence of changes in lending approvals to reflect the strategic preferences and guidance of the LTSF (see Table 4). The MTS I followed the LTSF in setting out a country-based approach as the basis for allocating ADB resources and sector selection. By contrast, the MTS II emphasizes sector selection and prioritization for ADB operations,

⁸⁸ ADB. 2007. *Special Evaluation Study: Resident Mission Policy and Related Operations: Delivering Services to Clients*. Manila.

⁸⁹ Five CSPs have been reviewed in Working Papers 2–7.

representing a departure from the country-driven approach of the LTSF and the MTS I. Further, the set of priorities of the MTS II arguably largely reflects actual practice, rather than setting a new strategic direction. For example, in 2006, there was only a single professional staff member defined by ADB's Human Resources Division as being in group III (subsectors where operations are to be "gradually wound up").

114. Progress toward making ADB a knowledge institution has also been limited. Extensive internal quality assurance procedures exist such as peer reviews, comments, and interdepartmental reviews; and during the course of LTSF implementation, a number of further measures have been put in place to improve quality assurance. The internal audit function is strong. Although there is a considerable amount of discussion and frequent reference in documents to knowledge products, knowledge departments, communities of practice, and the knowledge bank, the institutional response has been uneven, with expertise much better established in some areas than others. At the corporate level, ADB is still in the process of developing a specific knowledge management strategy. Knowledge departments lack synergy among themselves, and knowledge dissemination is scattered and limited.

115. The SES examined CAPEs prepared over 2000–2007. The feedback from the CAPEs is that, with respect to the overall performance of ADB country assistance, 8 of 13 were successful.⁹⁰ In addition, 6 of 13 CAPEs rate ADB performance as satisfactory, the other 7 being rated partly satisfactory (Appendix 5). The CAPEs also identify areas for improvement, which include (i) focus on a few sectors, plan the lending program strategically, and synergize ADB's public sector and private sector operations; (ii) build a strong knowledge base in core areas of operations; (iii) decentralize and delegate to resident missions to maximize client responsiveness; (iv) streamline policies and procedures to improve efficiency and responsiveness and to reduce transaction costs; and (v) develop strategic partnerships with development partners in a coherent and transaction cost-reducing manner.

116. OED's past evaluations also indicate the need for a reasonable balance between resources allocated for project design prior to Board approval and those allocated for implementation. OED findings tend to show a bias toward ex ante resource allocation.⁹¹

117. A summary of the Development Effectiveness Committee (DEC) recommendations (Appendix 6) drawn from the past three DEC annual reports shows that a number of recommendations from previous annual reports have not been implemented. These include (i) building more flexibility into budget and staff resource allocation, both within and across departments, so that project supervision (particularly of projects flagged as being at risk) receive adequate attention; (ii) pilot-testing of annual reporting on the production of outputs against projections in selected sectors as a better alternative to relatively unreliable ratings in project performance reports; and (iii) provision to DEC of brief periodic updates on the progress in implementing the action plan to improve loan and TA portfolio performance. These indicate implementation difficulties, as well as opportunities to improve institutional effectiveness. Current measures and initiatives have not yet succeeded in making a meaningful difference in institutional effectiveness in the area of ADB as a learning institution.

118. In response to the LTSF's principle of measuring development impact, as noted earlier neither the LTSF nor the MTS I contain monitorable targets, and the LTSF does not specify a monitoring and evaluation framework for tracking implementation. It is difficult to track progress

⁹⁰ These CSPs and CAPEs cover periods both prior to LTSF implementation and during LTSF implementation. Two CAPE reports do not give a rating for overall performance, and two others do not give ratings for ADB performance.

⁹¹ ADB. 2006. *Annual Evaluation Review*. Manila.

toward achieving the strategic goals in the LTSF since no firm targets are set, and data on operational performance do not reflect the themes and core areas of the LTSF. This SES also came across problems with the quality of operational data and information management systems (Appendix 4). Monitoring indicators are collected by ADB but are not widely reported (they are contained as an annex to the annual report of the PRS).⁹² It is a basic principle of institutional planning that indicators should be set to measure management performance toward strategy achievement. An example of such an indicator is the administrative cost per dollar committed and disbursed. An analysis of available financial information shows a reduction in administrative expenditure per dollar over the period 2004–2006.

119. ADB is in the process of transitioning to MfDR. The integration of this approach into ADB's institutional management has not yet taken place. The first stage of an ongoing SES has found that ADB is no better or no worse in implementing MfDR when compared with other multilateral development banks. However, in ADB, no explicit indicators are set in key strategic documents, and no consistent baseline data are available. This is not the case in all multilateral development banks; for example, the World Bank Strategic Compact⁹³ sets out a clear monitoring framework. The Department for International Development of the United Kingdom publishes multilateral development effectiveness summaries for multilateral organizations, including ADB, which identify institutional strengths and weaknesses. The rating on ADB was medium (a discussion of the Department for International Development multilateral development effectiveness summaries findings is contained in Working Paper 8). In this context, a recent SES examined ADB's efforts to harmonize with its development partners in the context of the Paris Declaration on Aid Effectiveness.⁹⁴ Conclusions included that ADB has limited appreciation of partnering and harmonization but that the revised CPS guidelines provide a framework for meeting ADB's Paris Declaration commitments at the country level.

120. Multiple high-level strategic documents and statements (e.g., LTSF, PRS, EPRS, and MTs) may lead to confusion both internally and externally if they are not understood well, and the LTSF is one of a number of such statements (Working Paper 8). This may, in part, explain the findings of a perception survey conducted as part of this SES indicating that, while around three quarters of professional staff know ADB's purpose, vision, and mission statements, one in four do not. Furthermore, fewer than 25% of respondents agreed that there is good awareness of the LTSF and the application of its principles among staff.

121. Both internal and external perceptions of the LTSF are important in gauging its influence on institutional effectiveness. A 2006 ADB-commissioned external survey of some 700 opinion leaders in some 30 DMCs identified ADB's greatest strengths as the services provided, quality of staff, partnering, and flexibility (footnote 63). Weaknesses were found to be cumbersome procedures and practices, lack of capacity in some areas, and responsiveness. In terms of strategic direction, a large majority were implicitly agreeing with the LTSF in believing that ADB should place a higher priority on poverty reduction and in stating that poor governance and corruption are a threat to development. Other identified threats include poor infrastructure, corruption, income inequality, limited educational opportunities, and inadequate health services.

122. The evaluation of institutional effectiveness has identified a range of strengths in the LTSF's design, areas to improve, opportunities to build on, and threats and risks to be aware of and manage, which have been combined with situational analyses of other strategic areas and

⁹² For example, ADB. 2006. *2005 Annual Poverty Reduction Report: Progress in Implementing the Poverty Reduction Strategy*. Manila.

⁹³ World Bank. 1997. *The Strategic Compact: Renewing the Bank's Effectiveness to Fight Poverty*. Washington, DC.

⁹⁴ ADB. 2007. *Special Evaluation Study: The Asian Development Bank's Approaches to Partnering and Harmonization: In the Context of the Paris Declaration on Aid Effectiveness*. Manila.

crosscutting themes. Table 5 provides an overall strengths, weaknesses, opportunities, and threats summary for ADB practice as guided by the LTSF.

Table 5: Overall Institutional and Operational Performance Summary

Strengths	Weaknesses
Clear overarching goal and supporting reform agenda Synergy with other aid agencies on need for and approach to poverty reduction and meeting MDGs Recognition of importance of knowledge management CSPs (as reviewed by sample CAPEs) mostly evaluated as relevant and responsive Successful track record in supporting infrastructure, finance, and regional cooperation Excellent credit rating High regard from client countries for financial and nonfinancial services provided, quality of staff, partnering, and flexibility Positive perception of development partners and shareholders Trusted catalyst for regional dialogue HQ location and extensive resident mission network Unique, exclusive Asian focus and increasing demand for ADB products and services	Operations not significantly affected by the LTSF's strategic direction Overlapping and unclear hierarchy and links among strategic and planning documents No monitoring and evaluation framework for achieving results LTSF does not directly address current requirements/participation of rapidly diverging DMCs and those of graduated economies Cumbersome procedures and overcentralized decision making and headquarters-centric operations; essentially one-size fits all approach Lack of staff and expertise in some areas Problems with data quality and information management systems
Opportunities and Challenges	Threats and Risks
Progressive realignment of strategy with changing priorities and demand of the DMCs and graduated (nonborrowing) economies Building country systems New instruments, modalities, and partnerships for targeted poverty reduction and for inclusive social development Further improving corporate processes present opportunities for increasing operational efficiency More attention and resources for governance reform, regional cooperation support, and private sector development	Potential for key clients (MICs) to cease borrowing and/or repay loans earlier Unable to maintain relevance and competitiveness in existing markets Difficulties in replenishment of ADF resources

ADB = Asian Development Bank, ADF = Asian Development Fund, CAPE = country assistance program evaluation, CSP = country strategy and program, DMC = developing member country, HQ = headquarters, LTSF = Long-Term Strategic Framework, MDG = Millennium Development Goal, MIC = middle-income country.
 Source: Operations Evaluation Department's LTSF evaluation team.

123. Overall, in terms of the extent to which LTSF-identified institutional changes have been implemented and of initial indicators of likely results, the rating for response is medium.

VI. OVERALL ASSESSMENT, KEY LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Key Findings

124. The LTSF is a pioneering attempt to provide a long-term vision of ADB to its stakeholders and beneficiaries. It emphasizes ADB's commitment to help its DMCs reduce poverty and improve living conditions and the quality of life. It envisages sustained and equitable economic growth, social development, and good governance contributing to achieving the vision of poverty reduction. This three-track approach is conceptually strong and empirically valid in many countries, as discussed in the Working Papers. Overall, the LTSF remains relevant for its original timeframe. Its arguments reflect current thinking only a few years ago, and its general

assessments of the regional and global context and the needs of DMCs are broadly valid. In terms of its impact on ADB, it must be remembered that the LTSF is very clear that its broad focus on the various areas and themes require extra resources and staff. The fact that these were often not forthcoming (particularly in the recruitment of a critical mass of specialist staff in new areas linked with the core areas and themes, and limited ADF resources) has lessened the influence of the LTSF on ADB operations. The strategic areas of inclusive social development, particularly the aspects of social protection and human resource development, have not been much influenced by the LTSF and MTSs. The governance (i.e., LEMPP) area received a significant increase in lending operations in recent years due to policy-based lending to countries including Indonesia, Pakistan, Philippines, and Viet Nam, particularly to support public sector management, public administration reform, and improved access to justice. However, the LEMPP share was still relatively small compared to overall lending operations, with the predominant share going to physical infrastructure development to support economic growth and poverty reduction. At the corporate strategic level, having an LTSF, PRS, EPRS, and MTSs at times seems to have created confusion about the strategic hierarchy and difficulty in operationalizing them. The lack of a results chain and monitoring indicators, a weak strategic link with corporate planning and budgeting, and poor quality of operational data and a weak information management systems have weakened the effectiveness of the LTSF in influencing institutional behaviors and achieving the overall LTSF vision.

125. Table 6 summarizes the main conclusions assessing the relevance, response, and initial results and results positioning of different aspect of the LTSF, and its implementation. Overall, relevance is found to be high, while ADB's response and the initial results achieved are rated medium. The significant exception is the area of inclusive social development, where the response was inadequate to achieve the LTSF objectives, and results were weak.

Table 6: Summary Evaluation Ratings of LTSF Implementation (2001–2006)

Category	Relevance	Responsiveness	Initial Results and Results Positioning
Regional context and needs of DMCs	HIGH: Strategic and thematic areas relevant; endorsed in subsequent reviews; reflected aid community thinking at time of formulation; poverty likely to remain a policy priority in most DMCs post-2015, and increasingly equality in emerging middle income DMCs. However, no explicit strategy for graduated economies		
Sustainable economic growth	HIGH: Stresses sustainability and equity issues; anticipates “inclusive growth” objective; in line with key evidence on poverty-reducing interventions	MEDIUM: CSPs assessed as responsive to DMC objectives and growth focused; lack operational guidance on trade-offs among strategic areas; sustainable growth not defined in operational terms	MEDIUM: Infrastructure focus continues with generally positive results for growth and poverty reduction
Inclusive social development	HIGH: Social development key strategic area; awareness of vulnerability raised by crisis; important for non-income poverty; reinforces gender issues	LOW: Indirect response in CSPs in terms of poverty reduction not necessarily inclusive social development; limited focus through TA and safeguards; limited increase in staff resources	LOW: Relatively little DMC demand for OCR funds, and ADF resources limited; relatively low lending in health and social development; recent TA provides opportunities for collaborative work

Category	Relevance	Responsiveness	Initial Results and Results Positioning
Governance	HIGH: Recognizes good governance as important for improved performance, but areas of potential greatest impact not identified	MEDIUM: Governance definition in LTSF comprehensive covering country and sector level; lately, ADB has shifted governance focus to sector level and anticorruption	MEDIUM: Majority of governance loans focused on public sector financial management and sector reform; governance reforms also supported by nonlending assistance
Private sector development	HIGH: Private sector driver of growth in most DMCs	MEDIUM: Country-level private sector assessments have had limited impact on CSPs; PSOD created but understaffed relative to lending demand; weak public and private sector operations synergy, but good examples of success and progress	MEDIUM: Limited impact on improving business environment and limited success in creating public-private partnerships; large increase in funds mobilized 2005 onward
Regional cooperation	HIGH: Consistent with charter; important mechanism for closer trade and investment; continued interest from DMCs	MEDIUM: Regional cooperation funding facilities set up recently (regional IPF for ADF resources in 2005 and regional cooperation financing facility in 2007); RCSPs and CSPs not fully aligned	MEDIUM: GMS, CAREC, and SASEC provide important regional foci; ADB's main role as facilitator and infrastructure project financier; some role in other regional public goods
Environmental sustainability	HIGH: Sees halting and reversing environmental degradation as important, but multiple objectives dilute the focus	MEDIUM: Focus mainly at project not strategic country level; country environmental assessments rarely influence CSPs; new initiatives address issues beyond safeguards	MEDIUM: Mitigatory project environmental expenditure incorporated, but limited DMC demand for environmental protection and regeneration projects; recent clean energy efficiency initiatives
Influence on institutional effectiveness		MEDIUM: Call for greater flexibility and responsiveness to DMCs; emphasis on knowledge bank; little on accountabilities and responsibilities; introduces operating principles; introduces greater country focus; progress on knowledge strategy mixed; concern over loss of critical mass of sector specialists	MEDIUM: Country focus adopted and limited progress on knowledge institution; monitoring framework needed to align strategy with targets and outcomes; resources required to meet institutional aspirations
Overall	HIGH	MEDIUM	MEDIUM

ADB = Asian Development Bank, ADF = Asian Development Fund, CAREC = Central Asia Regional Economic Cooperation, CSP = country strategy and program, DMC = developing member country, GMS = Greater Mekong Subregion, IPF = indicative planning figure, LTSF = Long-Term Strategic Framework, OCR = ordinary capital resources, PSOD = Private Sector Operations Department, RCSP = regional cooperation strategy and program, SASEC = South Asia Subregional Economic Cooperation, TA = technical assistance.

Source: Operations Evaluation Department's LTSF evaluation team.

126. The summary evaluation in Table 6 raises several points on the relevance, response, and initial results of the LTSF implementation by ADB. First, although the LTSF and MTS I did not prioritize operational sectors, the MTS I described the characteristics and needs of DMCs

through a typology of very low-, low-, and middle-income countries (MICs).⁹⁵ The MTS I stressed that selectivity must be determined at the country level through the CSP process. Despite the range of interventions and options provided under the LTSF's strategic areas and themes and CSP-determined sector priorities, the response and results to meeting diverse DMC needs has been mixed for the reasons described above. Resource allocations to physical infrastructure sectors have generally dominated the portfolio volume to date, and are proportionally similar to the sector lending composition in the pre-LTSF, MTSF period. This was followed by ANR (which also include some physical infrastructure components); LEMPP; finance; and education and health. ADB responded to supporting the private sector, and this is now a growing proportion of the portfolio, while public-private synergies are yet to be fully developed.

127. Second, while the MTS I emphasized selectivity through country-determined priorities, the MTS II introduces selectivity through core operational sectors (footnote 3).⁹⁶ However, the resource allocation patterns over the LTSF period to date reflect the operational sector selectivity introduced in the MTS II. The sector selectivity in the MTS II uses three criteria: (i) sector relevance to the LTSF, (ii) DMC demand for assistance in the sector as reflected in internal and external discussions, and (iii) OED reports on ADB's track record and capability to produce quality products (footnote 3, page 17). The consequent need for a critical mass of specialists in key sectors was discussed, as were diverse DMC conditions and needs. Other principles used in the MTS II for aligning ADB's operational model that affect response and results are (i) identification of core operational sectors, (ii) realignment of the organization, (iii) strategic use of financing partnerships and cofinancing, (iv) product and process innovations, and (v) focus on portfolio performance. ADB's core competencies are relatively high in the physical infrastructure sectors compared with the nonphysical infrastructure sectors, but operational activity in terms of resource allocation and the MTS II priority sectors are not always consistent with DMC demands and the LTSF's strategic scope. Each of these criteria and considerations is mentioned in the LTSF and the MTS I, but the emphasis on country-determined selectivity in the MTS I and ADB-determined sector selectivity in the MTS II was a significant strategic shift in terms of ADB- versus DMC-determined sector priorities and is a contradiction in strategic direction.

B. Lessons from LTSF Implementation

128. **The LTSF moved the poverty agenda forward in weakly performing countries and low-income countries, but the need to address differences between DMCs has become more apparent, requiring greater focus on DMC needs and priorities.** The LTSF was prepared to move the poverty reduction agenda forward. Income poverty targets are on track in a majority of DMCs, but often extensive pockets of absolute poverty remain, especially in rural areas. Some non-income poverty targets for health, water, and sanitation have not been met, particularly in weakly performing countries. Given that poverty reduction is a long-term goal, it is useful for ADB to retain its current vision. Meanwhile, Asia has changed since the LTSF was prepared, as exemplified in the characteristics of countries such as Viet Nam described in the MTS I country typology. DMCs continue to have significantly different development needs, priorities, and demands, and the sector mixes required to meet their development objectives are also different. Table 7 demonstrates how the range of issues, assistance areas, and products needed by countries changes at different stages of development. Transport, energy and water

⁹⁵ Similar to the Board information paper of 2006 on Enhancing ADB Support to MICs and Borrowers from OCR (ADB. 2006. *Enhancing Asian Development Bank Support to Middle-Income Countries and Borrowers from Ordinary Capital Resources*. Manila), this paper defines MICs as ADB DMCs eligible for OCR financing.

⁹⁶ Priority (group I) sector classifications are road transport, energy, urban infrastructure, rural infrastructure, education, and the financial sector.

infrastructure, and water issues are important to all country types, but the extent to which they must be provided as public goods will be different depending on the country's income level. Similarly, agricultural, health, and education sector development is relatively more important to weakly performing countries and low-income countries and low-income areas of MICs for growth and poverty reduction and for the need to address related government and market failures in such situations. Looking forward, ADB needs to address this diversity in DMCs by adopting a balanced and flexible approach that allows it to focus on the binding development constraints that each DMC faces in reducing poverty and promoting growth.

129. **The operating principles specified in the LTSF and in the MTS II changed from DMC-driven sector selectivity to ADB-determined sector selectivity, requiring clearer and alternative approaches to reconciling DMC needs and areas of ADB's relative strengths.** The MTS II's focus on identifying sector priorities and the use of CSPs (or CPSs) to provide the strategic framework for meeting DMC needs represent a change in the mechanism for priority setting and selectivity described in the LTSF's and the MTS I's operating principles. There is continued need and demand by different DMCs for support in the MTS II group 2 and 3 sectors. Furthermore, there is a perception of a lack of clarity and inconsistencies in priorities and groupings, with overlaps, for example, between irrigation (group 1) and agriculture (group 2). The MTS II and future priorities need to be reconciled.

130. **The needs and role of graduating and graduated (nonborrowing) member countries/economies in the region require explicit strategic attention.** The needs of MICs and graduating economies (e.g., PRC and India) are very different from the needs of lower income DMCs. Urban poverty is also a rising problem in some middle-income DMCs. Fast-growing economies have also encountered expanding inequality and the need to address issues such as social protection. The role of graduated economies is not clear in the LTSF. Graduated economies (e.g., nonborrowing countries like Brunei, Malaysia, and Thailand) have a significant role in the socioeconomic development of the region, and they also require explicit strategic attention. The support to and from graduated economies including partnerships in regional economic cooperation and trade, environmental management, and the monitoring and management of macroeconomic and financial sector developments needs to be clarified.

Table 7: An Illustration of the Range of Country Needs

Item	Weakly Performing Countries	Low-Income Countries	Middle-Income Countries	Graduated Economies
Key issues and binding constraints	<ul style="list-style-type: none"> • Poverty • Rural on- and off-farm productivity • Weak governance and institutions • Conflict, transition • Trade barriers • Energy supply 	<ul style="list-style-type: none"> • Poverty and employment • Rural productivity • Rural-urban migration • Energy supply and alternatives • Environmental degradation • Trade barriers 	<ul style="list-style-type: none"> • Poverty/income disparity • Rural-urban migration • Urban sector development • Environmental degradation/ climate change • Global market competitiveness • Energy supply and alternatives 	<ul style="list-style-type: none"> • Environment and climate change • Global market competitiveness • Technology and innovations
Selected assistance areas	<ul style="list-style-type: none"> • Agriculture and rural development • Governance <ul style="list-style-type: none"> - Institutional development - Supporting emerging private sector • Basic infrastructure (rural and urban) • Social development (primary health and education) 	<ul style="list-style-type: none"> • Agriculture and rural development • Governance and finance • Physical infrastructure development • Social development (health, education) • Regional cooperation 	<ul style="list-style-type: none"> • Private sector enabling environment • Privatization/PPPs • Regulatory environment • Governance • Trade and regional cooperation 	<ul style="list-style-type: none"> • Capital market development • Partnerships and regional cooperation • Aid coordination and effectiveness
ADB's key products and services	<ul style="list-style-type: none"> • ADF grants/loans • ADB and sourced specialist knowledge 	<ul style="list-style-type: none"> • ADF loans/OCR • ADB and sourced specialist knowledge 	<ul style="list-style-type: none"> • OCR • ADB and sourced specialist knowledge 	<ul style="list-style-type: none"> • ADB and sourced specialist knowledge

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, PPP = public-private partnership.
Source: Compiled by the Operations Evaluation Department's long-term strategic framework team.

131. Sustainable economic growth has been a core ADB strength, but greater operational clarity is needed concerning the types of growth and forms of assistance.

The LTSF's sustainable economic growth strategic area has been the principal area of ADB lending, with physical infrastructure's lending share rising to over half of total loan value between 2001 and 2006. Physical infrastructure also continues to be an area of core competency for ADB. Such operations are often justified as support for pro-poor growth, even though the definition of pro-poor growth was not clarified until the MTS I was advanced. Future strategies need to provide clear operational guidance where the nature and type of growth are qualified.

132. Public-private partnerships have been a relevant but underutilized form of assistance to support economic growth and some social development issues.

Both before and during the LTSF (2001–2006), ADB's response and results in physical infrastructure provision have been substantial, and ADB maintains a competitive advantage. However, the massive and rising demand for infrastructure from transport to water supply and sanitation financing in the region exceeds public resource supply. The public-private partnerships promoted in the LTSF so far continue to present an underutilized way of catalyzing and mobilizing resources. Further efforts to build on opportunities and enhance the enabling environment for public-private partnerships would improve response to an area where ADB has already achieved results (see also para. 135 below).

133. The inclusive social development strategic area discussed in the LTSF is relevant, but the staff and resources allocated have been insufficient to cover the wide scope of issues.

In the inclusive social development strategic area, ADB has had a low response and low results positioning. A number of policies were developed, staff resources were slightly enhanced, and assessments were conducted at the country level, but they were not central to many CSPs. This partly reflects non-ADF eligible DMCs' reluctance to borrow OCR funds for nonrevenue-generating projects and the limited availability of ADF financing. It also indicates the difficulties arising from the breadth of coverage, given that inclusive social development straddles sectors (e.g., education and health) and crosscutting thematic work (e.g., gender equity). Operations in this core strategic area are inherently complex to design and difficult to implement. Given the LTSF's broad definition of inclusive social development and the absence of a critical mass of expertise, the efforts have been diffused. A focus on a few selected areas within inclusive social development where ADB has a comparative advantage, a critical mass of expertise, and alternative approaches may have led to better results.

134. A clearer strategic direction for governance has been needed to guide related operations more effectively.

Governance in particular receives emphasis in the LTSF. Though the disbursement of program loans and related TA address broader governance issues, ADB's recent efforts (i.e., GACAP II) have been focused more on sector-level governance and anticorruption issues as they affect ADB's lending. ADB policy and operations would have benefited more by addressing governance issues at the country level (for example, through legal and judicial system development, public administration reform, and transparency measures, which would contribute also to improving the business enabling environment by protecting rights and reducing transaction costs), in tandem with governance reforms at the sector level while mitigating governance risks at the project level. This could be achieved by collaborating with other development partners where ADB resources are a constraint.

135. The LTSF's thematic areas are relevant but would have benefited from strategic mainstreaming and better resourcing.

The LTSF's focus on environmental sustainability,

regional cooperation, and private sector development as crosscutting thematic areas is highly relevant. In recent years, ADB has made substantive efforts to support the themes largely through nonlending operations. There is an upward trend in regional cooperation lending projects, which shows DMC demand and ADB's response. Private sector operations have grown in recent years. However, very limited lending operations have materialized in the environment area, partly due to (i) DMCs' reluctance to borrow OCR funds, (ii) limited ADF resources, and (iii) ADB's limited staff resources and efforts to promote investments in this area. While results have been encouraging, they have fallen short of potential achievements. The LTSF is clear that its broad focus on these themes requires extra resources and staff, and it is likely that more could have been achieved if additional resources were available. An emphasis on strategic directions rather than crosscutting thematic areas may have assisted in translating strategic focus into operational guidance.

136. At the corporate level, having multiple strategy and planning documents with unclear strategic hierarchy and links can create unintended confusions. Within ADB, there is difficulty in operationalizing multiple strategic statements as clear guidance on how they relate to each other is not apparent. Externally, they lead to misunderstanding of ADB's long-term strategic direction. Clear long-term vision and mission statements setting the overall direction of ADB, widely publicized and understood both internally and externally, could provide clarity and a strong sense of direction for ADB and its staff leading to successful implementation. Overlapping and redundant strategy documents can be retired with the key elements incorporated in the new strategy document or grandfathered as appropriate.

137. Strategic plans and aspirations need to include assessments of resource requirements for the institution and monitoring of results. The analysis of operational data indicates that the LTSF has had limited influence on the composition of ADB's lending operations, in part because of internal resource constraints. ADB's performance is governed both by its ability to adapt its operations and instruments to rapidly changing client country needs and by how it can enhance its institutional effectiveness in terms of human resources, business procedures, incentive systems, and results orientation. Currently, there is unintended bias in favor of project preparation and approval relative to project implementation. Management information systems and quality of data are weak, and an efficient monitoring system for development results is lacking (Appendix 4). This requires considering resources and organization as part of a long-term strategic planning and implementation process.

138. An integrated and efficient data system is required to facilitate progress monitoring and decision making. This SES found it difficult to explicitly assess the shifts in ADB resources toward LTSF priority areas due to the absence of an integrated efficient database that encompasses ADB operations in these areas. While some information is not easily accessible (e.g., human resource data), other areas (e.g., operations data) have data accuracy issues. Furthermore, institutional level indicators have not been monitored systematically, and data maintained by different departments are not fully integrated to provide an efficient management information system.

C. Recommendations for Consideration by the Management

139. To remain relevant and responsive to the region's rapidly changing and diverse needs, ADB's role needs to continue to adapt. Asia's MICs are changing rapidly, with more demand for knowledge, policy advice, private sector development, environmental management, and regional cooperation. For ADB to remain relevant in the region, it needs to develop an explicit role for graduating and graduated economies based on its experience in these areas. MICs also

appreciate softer terms for undertaking largely nonrevenue-generating investments in areas such as environment and inclusive social development, which will continue to be important in the future with mounting regional disparities and the need to provide opportunities to disadvantaged groups.⁹⁷

140. ADB has three major roles to play in the region, taking into account country diversity and the demand for ADB products and services: (i) financing development projects; (ii) providing high-quality policy advice and analytical work and related knowledge services; and (iii) catalyzing the mobilization of resources from other development partners, the private sector, and newly emerging bilateral donors.

141. **A focus on each DMC's binding development constraints and sector priorities followed by sector selectivity within ADB, based on its comparative advantages and greater collaboration with other development partners, will help to ensure that ADB's products and services are demand driven.** ADB has limited resources to effectively address all DMC needs and demand areas, such as the range of issues the LTSF identifies in inclusive social development and "soft" areas of economic growth such as ANR management. Similarly, it is recognized that addressing urban management and rural development problems is complex, requiring a holistic and often multisector approach, greater ADB time, and a wider range of resources. In line with its charter, the rationale for ADB support is to respond to development needs, which arise from government or market failures, in all its DMCs. Where ADB's resources to support DMC sector needs are limited, alternative approaches are needed such as program-based and sector-wide approaches aligned with DMC plans and budgets and coordinated with other development partners. To address current resource and expertise constraints, options that ADB may consider include (i) aligning ADB's internal resources to better focus on urban issues; (ii) taking simplified, sequenced, and focused approaches to complex rural problems; (iii) using ADB's own resources to address DMC-demanded sector support; (iv) developing greater synergies with other development partners (development institutions, civil society, and nongovernment organizations) that are better placed in terms of location and core competencies; and (v) making greater use of emerging modalities for program and sector-wide support and proactively seeking collaborative and cofinancing prospects with other development institutions and the private sector.

142. **Reduce the range of high-level strategic documents and statements to more effectively guide operations.** Multiple high-level strategic statements and documents can be confusing. Clear long-term vision and mission statements setting the overall direction of ADB, which are widely publicized and understood both internally and externally, could provide clarity and a strong sense of direction for ADB and its staff. DMCs and funding agencies should own ADB's vision to make it demand driven. The vision should be supported by a clear mission statement, supporting policies, and strategies with a clear results chain and monitoring mechanism.

143. **Enhance strategic clarity by focusing on one set of strategic directions over a combination of sector and thematic areas.** The LTSF attempts to classify main operational areas into three strategic areas and three crosscutting themes. In reality, the distinctions between these two are somewhat blurred and can cause confusion. Difficulties have been experienced in operationalizing inclusive social development, environmental sustainability, and governance areas due to problems on both the supply side in ADB and in the demand from

⁹⁷To a certain extent, this issue of softer terms and ADF allocation is discussed in a separate SES report on ADF VIII and IX.

borrowing countries. The use of three strategic and three crosscutting areas has added complexity. There is now an opportunity for ADB to decide on simplified but meaningful areas for its strategic directions. Areas such as regional cooperation and environmental sustainability would perhaps qualify as strategic rather than crosscutting, given their strategic importance and potential for lending operations. ADB also needs to more effectively synergize and ensure coordination among subregional programs, country programs, and the corporate-level regional cooperation and integration strategy. It also needs to bring out an explicit strategy for graduating and graduated economies to partner with them in regional cooperation.

144. Expand private sector operations by developing synergies between public and private sector operations. There is a large unmet demand for ADB's private sector operations in the region. PSOD's operational focus can potentially be broadened to include the restructuring of state-owned enterprises as a precursor to privatization, and making strategic investments that will help extend PSOD's reach within countries, working closely where appropriate with the regional departments. Since there are two distinct cultures in ADB's private sector and public sector operations, harnessing synergies between them is an important and challenging task for ADB. There is a need and also an opportunity for ADB to expand PSOD operations by mitigating risks and catalyzing financing through innovative products for long-term financing. For this, PSOD would require additional resources.

145. Increase investment in ADB's human resource development and manage institutional change. Human resource management and investment in ADB are much more challenging now than in the past owing to increased competition in labor markets, demand for more specialized skills, and the need to keep pace with the rapidly changing environment. ADB needs to address current skill gaps, particularly in the infrastructure and finance sectors, through a concerted effort to attract and retain high quality individuals, including the provision of relevant training. This needs to be supported by a proactive effort to manage institutional culture change within ADB, including a culture of accepting new challenges and delivering development results.

146. Provide a better balance in terms of resource allocation and incentives between project preparation and implementation. There needs to be a reasonable balance between project preparation prior to approval (ex ante) and the project implementation (ex post) after approval. Current incentives are biased toward ex ante efforts. Since development effectiveness depends on both these stages, incentives are needed for ADB staff to give equal importance to both stages.

147. Strengthen ADB's capacity to provide knowledge products and services. ADB's role in providing knowledge services and products could be strengthened by (i) building synergies among ADB departments that are responsible for generating and disseminating knowledge, (ii) providing better incentives to staff, and (iii) networking with research institutions and knowledge networks of other development partners.

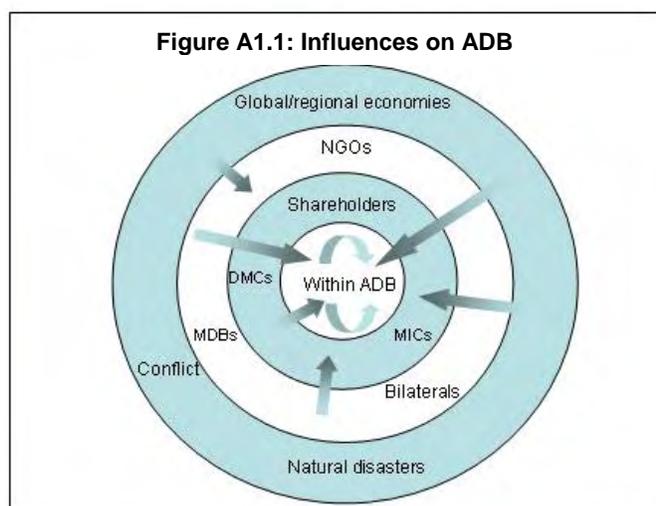
148. Enhance ADB's data quality and information management systems and provide a set of performance indicators to monitor and evaluate progress in achieving strategic directions and likely development results. Input, output, outcome, and impact indicators can be considered for monitoring performance. Input indicators could take the form of resources allocated for strategic areas and staff strengths in these areas. Output indicators can be measured both in terms of how well the operations are doing and how effective the institution is in achieving its strategic goals. The outcomes can be measured using the success rates of projects or their effectiveness ratings. Institutional effectiveness can be monitored with both qualitative indicators (e.g., client and partner perception surveys) and quantitative indicators

such as the cost effectiveness of operational resources (fixed versus operational costs per unit of transaction) or efficiency indicators (client responsiveness in terms of turnaround time for services or the balanced scorecard method to monitor client responsiveness in resident missions). An illustrative results framework is presented in Appendix 7. A logically integrated, technically efficient, and accurate data system is needed to assist monitoring and evaluation of strategy implementation progress and results. A data management committee for coordinating and overseeing operational data and information management systems may be considered by the Management.

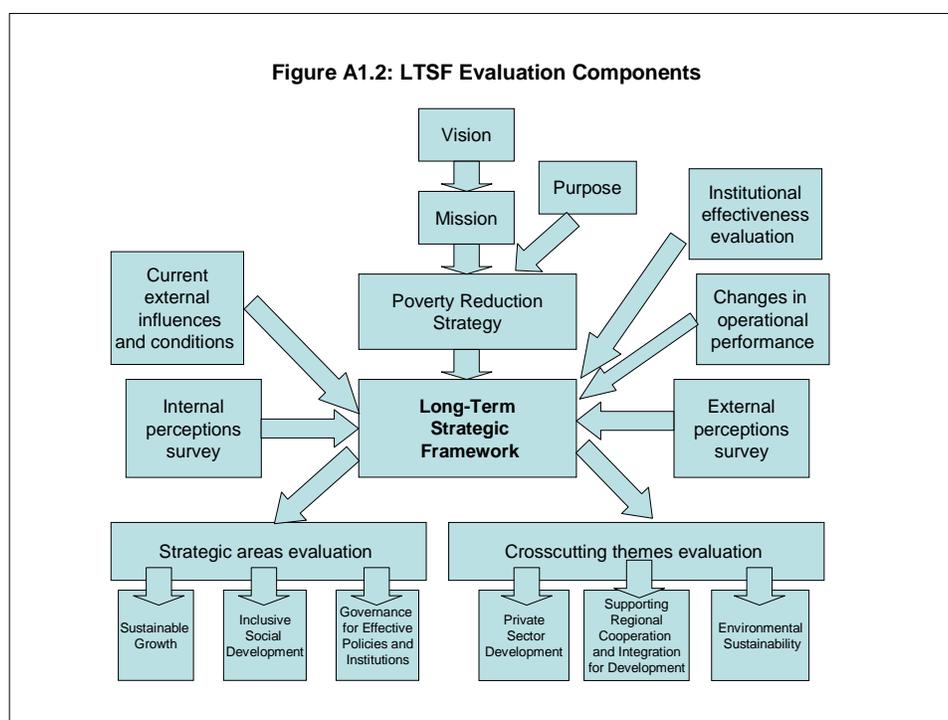
EVALUATION APPROACH

1. The objective of this special evaluation study (SES) on Long-Term Strategic Framework (LTSF) implementation is to assess independently the achievements of the LTSF, focusing on the Asian Development Bank's (ADB) activities and operations implemented during 2001–2006. It is intended to track progress, identify lessons, and make recommendations for ensuring better development effectiveness of ADB operations in the future. The findings of the study will also provide an important input for fine-tuning of the strategy and/or formulating related strategies and programs.

2. The announcement by the ADB President of the LTSF review at the 2007 Annual Meeting was in response to the changing environment and marketplaces, and to emerging challenges, opportunities, and risks. In this context, the challenges that ADB faces are to continue to remain relevant, responsive, and results-focused in providing services to its government and nonsovereign clients. Figure A1.1 summarizes the external and internal influences and stakeholders that affected the development of the LTSF and its early implementation through the medium-term strategy (MTS) I.



3. Figure A1.2 summarizes the evaluation components. The poverty reduction strategy is the overarching strategy of ADB as defined in the LTSF and implemented through the MTS I, and the study particularly focuses on its relationship to the mission, vision, and purpose statements on the one hand, and the key strategic areas and crosscutting themes on the other.



4. For each key component of the study, a separate working paper was produced. These papers entail assessment, validation, and rating of the key components of the LTSF and form the basis of the overall evaluation, conclusions, identification of lessons learned, and recommendations. The working papers comprised:

- (i) An evaluation of the relevance of the LTSF given the regional challenges at the time of its formation and now.
- (ii) Evaluation of the LTSF's influence on each strategic area and crosscutting theme (six papers covering sustainable growth, inclusive social development, governance for effective policies and institutions, private sector development, supporting regional cooperation and integration for development, and environmental sustainability).
- (iii) An evaluation of the LTSF's influence on institutional effectiveness.

5. This evaluation study broadly took account of existing evaluation guidelines and used a specific approach.¹ It also drew on the findings of alternative approaches and models for the measurement of development effectiveness. The approach was based on three evaluation criteria: relevance, response, and results positioning. The scope of these criteria and the subcriteria used in the working papers are described below.

6. **Relevance.** This addressed the consistency of the LTSF with the regional context and developing member country (DMC) development needs and priorities. The criteria used in determining the assessment of relevance were:

- (i) the extent to which the LTSF and the MTS I were relevant to Asia's development challenges and priorities,
- (ii) the extent to which the LTSF and the MTS I were relevant to the development priorities of DMCs, and
- (iii) the degree to which ADB sector support was in line with ADB's evolved comparative assistance advantage.

7. **Responsiveness.** This reviewed the type and effectiveness of ADB's institutional response encompassing operating principles, modalities, and resources. Responsiveness was assessed using the following:

- (i) the extent of response and alignment of country strategies and programs and regional cooperation strategies and programs with the LTSF component strategic areas and crosscutting themes,
- (ii) the extent to which country strategies were aligned to the LTSF operating principles, and
- (iii) efficiency improvements made as a result of LTSF-driven new business processes and reorganization.

8. **Results and Results Positioning.** This assessed how the LTSF has influenced ADB's behavior in terms of deployment of resources, how ADB was positioned to achieve development effectiveness of its operations, and what the initial indications for results and/or results positioning were. The criteria used to assess this were:

- (i) the extent to which the MTS I and MTS II adhered to the LTSF strategic areas and crosscutting themes;
- (ii) how the LTSF and the MTSs are positioned and influenced ADB resource allocations to add value toward achieving sustainable socioeconomic development in the region; and
- (iii) the extent to which ADB's operations achieved a level of critical mass were balanced across objectives, selective, and focused.

¹ There is no standard approach within ADB or established good practice in any multilateral development bank for the evaluation of long- or medium-term corporate level strategies.

9. The above subcriteria were used in the SES to determine whether relevance, response, and results positioning² were high, medium, or low. If the LTSF design and implementation met or exceeded the subcriteria, a “high” rating was given; when **some** subcriteria were partly satisfied or generally satisfied, the assessment rating assigned was “medium.” Finally, when **all** subcriteria were partly satisfied or unsatisfied, the assessment rating given was “low.”

10. The SES followed a meta evaluation approach. A number of recent evaluation studies completed by the Operations Evaluation Department are closely connected to this SES, for example the Resident Mission Policy and Related Operations: Delivering Services to Clients, Evaluation on Policy-Based Lending: Emerging Practices in Supporting Reforms in DMCs, Asian Development Fund VIII and IX Operations, Performance of Technical Assistance, Private Sector Development and Operations: Harnessing Synergies with the Public Sector, MfDR in ADB: A Preliminary Assessment, and several country assistance program evaluations (CAPEs). The data generated and findings from these studies were used in the preparation of the overall study. At all stages of the SES, extensive use was made of existing ADB-wide reports and studies (including sector and thematic studies).

11. In addition, the SES drew on a detailed examination of a sample of country strategies and programs and related CAPEs, examined the strategic frameworks of other multilateral development banks (e.g., the World Bank), and reviewed relevant analyses carried out by ADB and others. It analyzed ADB’s operational data from 1995 to 2006. The SES also analyzed the results of external perception surveys and conducted a survey of opinion within ADB. This was followed up with a series of structured interviews with a representative sample of staff to assess the current level of understanding of the LTSF, and providing staff with an opportunity to comment on the impact of the LTSF’s strategic direction. The SES also used the opportunity available at the regional consultation workshops for the new LTSF to understand the stakeholders’ views on the implementation of the current LTSF, as well as current priorities in the present regional context.

12. The overall evaluation of the LTSF drew together the findings of the working papers described above, identified key lessons, drew conclusions, and made recommendations. Interim outputs were periodically provided to the secretariat (Strategy and Policy Department) of the steering committee for the LTSF review as the SES progressed.

² Results positioning is discussed to provide the opportunity to assess the influence of the LTSF’s results on ADB behavior, as many of the operations that were designed and implemented after the LTSF have not reached a sufficient stage of implementation to assess the results on the ground.

MILLENNIUM DEVELOPMENT GOALS: SLOW PROGRESS OR REGRESSING

MDG Target	Asia-Pacific	PRC	India	Southeast Asia	South Asia (excluding India)	Central Asia	Pacific Islands	Asia-Pacific Least-Developed Countries ^a
\$1/day poverty ^b			*		*			*
Underweight children	*		*	*	*			*
Education reaching grade 5	*			*	**		**	*
Education primary completion rate					**		*	**
Gender equality, primary							*	
Gender equality, secondary								*
Gender equality, tertiary			*		*			*
Under five mortality	*		*		*	*	*	*
Infant mortality	*		*	*	*	*	*	*
HIV prevalence					**	**	**	
TB death rate						**		
Forest cover	**			**	**	**	**	**
CO ₂ emissions	**	**	**	**	**			**
CFC consumption			**		**			
Clean urban water	**	**		**	*		**	*
Clean rural water		*			*	**	**	*
Access to urban sanitation	*	*	*		*	*	**	*
Access to rural sanitation	*	*	*	*	*	*	**	

CFC = chlorofluorocarbon, CO₂ = carbon dioxide, HIV = human immunodeficiency virus, LDC = least-developed country, MDG = Millennium Development Goal, PRC = People's Republic of China, TB = tuberculosis.

Note: * = off track, slow, ** = off track, regressing.

^a This classification overlaps with the subregions. It consists of Afghanistan, Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu.

^b Only 7 countries (of the 22 Asia-Pacific countries for which income poverty data were available) did not meet their income poverty targets. These are Bangladesh, Georgia, India, Lao People's Democratic Republic, Pakistan, Philippines, and Sri Lanka.

Source: Asian Development Bank, United Nations Development Programme, and United Nations Economic and Social Commission for Asia and the Pacific. 2007. *The Millennium Development Goals: Progress in Asia and the Pacific 2007*. Bangkok.

**SAMPLE COUNTRY ASSISTANCE PROGRAM EVALUATIONS AND
COUNTRY STRATEGIES AND PROGRAMS REVIEWED**

No.	Year	Title
A. Country Assistance Program Evaluation		
1.	2007	Country Assistance Program Evaluation for Sri Lanka: Inclusive Development and Conflict Resolution: Major Challenges in the Future
2.	2007	Country Assistance Program Evaluation for the People's Republic of China: Success Drives Demand for More Innovative and Responsive Services
3.	2006	Country Assistance Program Evaluation for the Lao People's Democratic Republic
4.	2006	Country Assistance Program Evaluation for Uzbekistan
5.	2003	Country Assistance Program Evaluation for Papua New Guinea
B. Country Strategy and Programs		
1.	2006	Country Strategy and Program: Papua New Guinea (2006–2010)
2.	2006	Country Strategy and Program: Uzbekistan (2006–2010)
3.	2003	Country Strategy and Program (2004–2008): Sri Lanka
4.	2003	Country Strategy and Program (2004–2006): The People's Republic of China
5.	2001	Country Strategy and Program (2002–2004): Lao People's Democratic Republic

Source: Operations Evaluation Department.

DATA SOURCES, ANALYSIS, AND ISSUES

A. Background

1. The diagnostic for this special evaluation study (SES) to assess the “achievements of the Long-Term Strategic Framework (LTSF)” is anchored on several working papers on selected study themes: (i) changes in the Asian Development Bank’s (ADB) operating environment and developing member country needs, (ii) the three strategic areas and three crosscutting themes in the LTSF, and (iii) institutional effectiveness of ADB. In addition to the literature review, key desk analyses during report preparation depended on data collection and collation from ADB information systems and knowledge data bases on (i) loans and technical assistance (TA) by sector and thematic classification; and (ii) human resource data including budget, staffing, and skills mix.

2. One of the key issues is the absence of a master database that encompasses the information on ADB operations (mainly public sector loans, TA, and private sector operations). Operations Evaluation Department (OED) staff encountered several data issues in terms of finding an authoritative source for data, ease of use, access, and processing. Such problems constrained data quality and use, and, to an extent, delayed inputs for analytical work. This appendix aims to capture some of these data issues with a view to supporting the adoption of a more effective system to improve information storage and retrieval.

B. Summary of Issues Regarding the Classification System

3. The SES analyses required profiling ADB’s lending and nonlending portfolio from 1995 to 2006 by sector and thematic classification. The SES used the local area network or server-based project processing information system (PPIS), being a strategic ADB project processing management tool and the only centralized source of loan information classified by theme. During the process of data collection, OED staff encountered the data issues discussed in sections D and E. These ranged from (i) comparability issues driven by two changes in the classification system during 1995–2006, which were not appropriately reconciled with the rest of the PPIS database; (ii) data consistency, with some PPIS data being inconsistent with the reports and recommendations of the President (RRPs) and the Lotus Notes-based loan and technical assistance approval (LTAA) system; and (iii) issues related to downloading and data organization and formats of information. Despite its strategic role as a management information tool, PPIS data quality largely follows how effectively individual operations department staff update the system. In the absence of a central authority that checks for completeness and accuracy, downloaded data from the PPIS required users to reconcile inconsistencies with the RRP and the LTAA and reformat information, resulting in inefficient processing and potentially different outcomes for every use.

4. The SES experience highlights the importance of access to an authoritative source of data on ADB operations, particularly for thematic classification. To date, this has been constrained by a lack of systems integration (which means that data and information are spread over several systems in different formats) and the need to harmonize information from different offices. For instance, due to perceived uneven data quality on themes, offices like OED, the Regional and Sustainable Development Department, and the Strategy and Policy Department develop their own ad hoc databases depending on need. The Central Operations Services Office maintains an internal database on thematic classification based on the RRP. ADB has initiated efforts toward this end through the Information Systems and Technology Strategy:

2004–2009 (ISTS-II) initiative.¹ The issues raised regarding the need for a central authority and quality control must be addressed in such efforts.

C. Summary of Issues Regarding Human Resources Data

5. The SES analyses also reviewed trends in budget, staffing, and skills mix data to track how these have contributed to organizational effectiveness and to achieving the sector and thematic objectives of the LTSF. The study generally benefited from established data tables in ADB budget documents and other budget-related reports. ADB's Budget and Management Services Division staff also responded to data requests where possible, but these were limited due to the time it would take to generate and reconcile data records. As in the case of the PPIS, institutional changes resulting from evolving strategic objectives and internal reorganizations, etc., also did not allow some analyses (i.e., expense groupings) to go backward as may be desired.

6. In respect to cost attribution to help improve practices, ADB is not in a position to determine its product cost in particular for labor/time spent, which forms the bulk of the ADB cost. These have to be partitioned by direct operations, overhead operations, and further direct operations by DMCs. Tracking of staff time would require an electronic time recording system.

7. Based on the experience of the SES, information storage and retrieval of human resource data appear constrained by the inconsistency of information and the need for automating manual processes. The current ADB human resource data storage and retrieval system appears to depend on numerous individual spreadsheets, which need substantial work to meet custom requests for management information. The ongoing ISTS-II project is envisaged to also cover Budget, Personnel, and Management Systems Department reports under its project processing and portfolio management program (para. 4).²

D. Details of the Issues Regarding the Classification System

8. **Comparability of Data.** Between 1995 and 2005, ADB changed its project classification system twice³ (Table A4). However, each time a new classification system was introduced, existing data on loans and TA were not retrofitted to match the new thematic classification system.⁴ Thus, for the subject period, there are three sets of loan and TA data classified according to the different batches of themes: 1995–2000, 2001–2003, and 2004–2005. This makes a time-series analysis of loan and TA data by theme difficult because of lack of data comparability. For instance, the introduction of governance as a separate thematic category in

¹ This is part of ADB's first medium-term strategy (MTS I), which sought to realign internal information technology to be much more operationally focused. In addition to its traditional finance side, information technology will need to address development efforts. This will be done through five indicative modules within the proposed integrated project processing and portfolio management initiative: (i) management information system, (ii) project processing management, (iii) portfolio monitoring and management, (iv) portfolio administration, and (v) procurement management. The project processing and portfolio management system involves (i) making sure all data are connected; and (ii) consistent access to all applications, through consistency of information and automating manual processes.

² Under the proposed project processing and portfolio management system, once a project is approved, the system will monitor it throughout its life until closure. Budgets related to the project and budget projections, e.g., for travel, are also to be managed through the project processing and portfolio management system.

³ In response to the Poverty Reduction Strategy in 1999 and to the review of that strategy in 2004.

⁴ In contrast, historical loan and TA data by sector, however, have been reclassified to be consistent with the new sectors. According to ADB. 2004. *Updating the Project Classification System*. Staff Instructions. Manila (para. 27). Historical reclassification did not cover themes since these are specific to the strategic objectives of ADB at a given time.

2001 would seem to imply that ADB had no governance projects prior to 2001, when these were in fact lumped under the theme of economic growth. The same may be argued for private sector development, gender and development, and regional cooperation.

Table A4: ADB Project Classification Systems: 1995–2006

Long-Term Strategic Framework (2001–2015) Strategies/Crosscutting Themes	PPIS Data Classification		
	By Strategic Development Objectives 1995–2000	By Thematic Classification 2001–2003	By New Themes 2004–2006
Sustainable economic growth	Economic growth	Economic growth	Sustainable economic growth
Inclusive social development	Social concerns	Human development	Inclusive social development
Governance		Good governance	Governance
Private sector development		Private sector development	Private sector development
Regional cooperation		Regional cooperation	Regional cooperation
Environmental sustainability	Environment	Environment protection	Environmental sustainability
		Gender and development	Gender and development
			Capacity development
	Economic growth with social/environment concerns		Multitheme

ADB = Asian Development Bank, PPIS = project processing information system.

Sources: PPIS database and ADB. 2001. *Moving the Poverty Agenda Forward in Asia and the Pacific. The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

9. **Thematic Classification.** Before 2001, project officers were asked to identify a primary and a secondary objective for the loans, thus instilling discipline in the identification of the projects' main thrust. With the introduction of the multiple thematic classification, project officers were allowed to identify as many as three themes for each project, even if the second or third theme could be related to very minor components. As a result, it has become difficult to ascertain the share of loan value or volume that has been allocated to a particular theme, thus making the analysis of resource allocation by theme over time difficult. Some themes that may have a minor component in a project may be overrepresented.

10. **Multitheme Classification.** There was a separate "multitheme" category already present in the 2001–2003 system before it was introduced as a three-way classification in 2004. For the period 1995–2000, its counterpart was the theme on "Econ w/Env/Soc." Since these categories account for a significant number of projects that would otherwise have been excluded from the specific thematic discussions, the LTSF evaluation team has had to obtain

additional information from other sources to identify the specific themes and to allocate the number and value of these loans to the relevant thematic categories.

11. **Consistency of (Thematic/Subthematic) Classification.** Water supply projects were previously classified under social development based on the classification system prevailing in 1995–2000. However, similar projects are now categorized under urban infrastructure/development. Oftentimes, the deficiency lies in the definition of the classification criteria. For instance, there is a fine line distinguishing financial economic governance projects (which are classified under the governance theme) and projects promoting economic efficiency and enabling markets (classified under the sustainable economic development theme). The SES noted that the two types of projects are often confused and interchanged in the RRP and PPIS.

E. Details of Procedural Issues Regarding the PPIS

12. **Need for a More User-Friendly Format.** Unlike the LTAA database, where exporting of data is more straightforward, generating data from the PPIS database requires

(i) **More steps:**

- a. Data can be generated only 1 year at a time.⁵
- b. Different types of information are available from different views or options. For instance, downloading from “Detailed Poverty and Thematic Classification of Loans” would give the thematic classifications in one column, while themes generated from “Loans, New Sectors, and Themes” are presented in three columns as theme cluster 1, theme cluster 2, and theme cluster 3.

- (ii) **Prior knowledge of the contents of the database.** For instance, to generate loan data by thematic classification for 1995–2006, a user would have to go through three separate views and should know which years are relevant to the views. To get data for 1995–2000, the user should select the option “by strategic development objective (SDO) classification.” For loans in 2001–2003, choose the option “by thematic classification,” and for loans in 2004–2006, opt for “by new themes.” A user who is not familiar with these nuances may need to invest extra time in going through the system hit-or-miss or, worse, run the risk of using incomplete or inappropriate information.

13. Based on the foregoing observations, it would be useful for the PPIS database to (i) post an explanatory note to guide users regarding the type of data that can be generated, (ii) provide options enabling users to specify the type of information needed, and (iii) generate the information in one download. It would be ideal if the thematic classification could be integrated into a database that is consistent with all the other official information on ADB loans and TA.

14. **Inconsistency with Other ADB Databases:**

- (i) Some classifications found in the PPIS differ from the classification in the RRP. Examples include:
- a. Loan 2150-BAN: SME Sector Development Program was classified under the governance theme in the PPIS in 2004, while the RRP classified the loan under the themes of sustainable economic growth and private sector development.
 - b. Loan 2283-VIE: Agriculture Science and Technology in 2006 was classified under environmental sustainability in the PPIS, in addition to

⁵ Unlike in the LTAA, where one can specify the years needed and download these all at the same time.

- sustainable economic growth and capacity development, while the RRP identified only the latter two as themes.
- c. For the same year, Loan 2286-PAK: Renewable Energy Development Sector Investment Program was classified only under sustainable economic growth, while the RRP also identified environmental sustainability and capacity development as its other themes.
 - (ii) The multitranche financing facilities were included in the PPIS's annual count of loans and loan amounts, while only the approvals for the multitranche financing facility subprojects were reflected in the LTAA. For example, the \$900-million Punjab Irrigated Agriculture Investment Program was included in the PPIS' annual tally for 2006, along with its subproject 1, the \$227-million Lower Bari Doab Canal Improvement Project. This treatment leads to double counting.
 - (iii) The LTAA considered OCR and ADF approvals as two separate loans (with separate loan numbers), while the PPIS counted them as one project. For example, Loans 2074 (\$64.8-million OCR loan) and 2075 (\$35.2-million ADF loan) for the Second Decentralized Health Services project in Indonesia in 2003 were reflected as a \$100-million project in the PPIS. While certain uses do require a loan slice rather than a project analysis, it would be useful if the system could add an explanatory note to guide users regarding the intricacies of the different data sets.
 - (iv) Certain loan amounts in the PPIS differ from the LTAA loan values. For example, Loan 1412-TON: Outer Islands Agriculture Development in 1995 had a value of \$3.65 million in the PPIS, but it was \$3.635 million in LTAA. It is possible that the discrepancy is due to the conversion from the special drawing rights equivalent. However, for the sake of consistency, the numbers should agree with the official figures.
15. Proposals and suggestions for the future are as follows:
- (i) Have a master database with all relevant information on loan and TA approvals, cancellations, classification, etc.
 - (ii) Combine all information pertaining to a particular loan in one record (approvals, cancellations, \$ amount, SDR amount).
 - (iii) Determine responsibility for data quality control, and spot check to verify accuracy.
 - (iv) Allow for easier access to data for multiple years to see trends.
 - (v) Introduce a new subsector for new topics and determine which sector they belong to. Control quality in the initial years to verify correct sector classification.
 - (vi) Give clear guidelines about which subcategories belong to which sector or thematic area.
 - (vii) Reconcile how to handle multiple themes.
 - (viii) Establish a consistent and sustainable database on human resource management.
 - (ix) Provide user training on improvements to the database and prepare a handbook.

FEEDBACK FROM INDEPENDENT EVALUATION STUDIES

1. The preparation of a country assistance program evaluation (CAPE) is intended to independently assess the experience of completed and ongoing Asian Development Bank (ADB) operations in a country, serving to establish accountability and to identify lessons that may become useful in the formulation of the next country partnership strategy. The first-generation CAPEs (those completed before 2006) were not based on a structured methodology for assessing a country program. With the issuance of guidelines for the preparation of CAPEs in February 2006,¹ the CAPE presentations have been standardized, but the methodologies have continued to evolve and improve.

2. The more relevant components of the CAPEs in terms of illustrating the responsiveness of ADB country assistance to the Long-Term Strategic Framework (LTSF) guidance are the ratings on ADB performance and the overall assessment. The first refers to the assessment of the quality and responsiveness of the institution's services in designing and delivering development results. This evaluates ADB's efforts in providing lending and nonlending services, upholding good corporate governance practices, being responsive to client needs, fostering client ownership, and working toward more harmonized efforts with other development partners. The overall rating on country program performance is a combination of a top-down assessment (which includes the rating on ADB performance along with ADB's choice of the right issues and instruments and contribution to development results) and a bottom-up assessment of performance in ADB sectors (based on the relevance, effectiveness, efficiency, sustainability, and impact of sector interventions). Table A5.1 summarizes these ratings.

Table A5.1: Overall Performance Ratings of Country Assistance Program Evaluations
(since 2000)

Country	Year	ADB Performance	Overall Assessment
India	2007	Partly Satisfactory	Successful
Sri Lanka	2007	Satisfactory	Partly Successful
Pakistan	2007	Partly Satisfactory	Partly Successful
People's Republic of China	2007	Partly Satisfactory	Successful
Lao People's Democratic Republic	2006	Satisfactory	Successful
Uzbekistan	2006	Satisfactory ^a	Successful
Indonesia	2005	Partly Satisfactory	Partly Successful
Bhutan	2005	Satisfactory	Successful ^a
Nepal	2004	Partly Satisfactory ^a	—
Cambodia	2004	Satisfactory	Successful
Papua New Guinea	2003	Partly Satisfactory ^a	Partly Successful–Unsuccessful ^a
Bangladesh	2003	Partly Satisfactory	—
Philippines	2003	—	Partly Successful
Mongolia	2002	Satisfactory	Successful ^a
Viet Nam	2000	—	Successful ^a

— = not available; CAPE = country assistance program evaluation.

^a Derived from narrative information from relevant CAPE document.

Sources: ADB. 2007. *Country Assistance Program Evaluation for India*. Manila; ADB. 2007. *Country Assistance Program Evaluation for Sri Lanka: Inclusive Development and Conflict Resolution: Major Challenges in the Future*. Manila; ADB. 2007. *Country Assistance Program Evaluation for Pakistan*. Manila; ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China: Success Drives Demand for More Innovative and Responsive Services*. Manila; ADB. 2006. *Country Assistance Program Evaluation for the Lao People's Democratic Republic*. Manila; ADB. 2006. *Country Assistance Program Evaluation for Uzbekistan*. Manila; ADB. 2005. *Country Assistance Program Evaluation for Indonesia*. Manila; ADB. 2005. *Country Assistance Program Evaluation for Bhutan*. Manila; ADB. 2004. *Country Assistance Program Evaluation for Nepal*. Manila; ADB. 2004. *Country Assistance Program Evaluation for Cambodia*. Manila; ADB. 2003. *Country Assistance Program Evaluation for Papua New Guinea*. Manila; ADB. 2003. *Country Assistance Program Evaluation for Bangladesh*. Manila; ADB. 2003. *Country Assistance Program Evaluation in Philippines*. Manila; ADB. 2002. *Country Assistance Program Evaluation in Mongolia*. Manila; and ADB. 2000. *Country Assistance Program Evaluation in the Socialist Republic of Viet Nam*. Manila.

¹ ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila (paras. 1–4).

3. Of the CAPEs surveyed, seven out of 13 rated ADB's performance as partly satisfactory. In terms of the overall assessment rating, eight out of 13 CAPEs were assessed successful. This suggests that the achievements in the other criteria may have helped to compensate for the institutional performance.

4. The key messages and recommendations commonly raised in the 10 most recent CAPEs (completed from 2004 to 2007) regarding the effectiveness and efficiency of ADB as an institution are presented in Table A5.2.

Table A5.2: Lessons from CAPEs and Implications for the Next Framework

Selected Recommendations Common to the Last 10 CAPEs (since 2004)	Source CAPEs	Related LTSF Message
1. Focus on a few sectors where ADB has built good experience, undertaking adequate sector analysis, and develop a strategy for longer term involvement to achieve a critical mass.	IND, SRI, PAK, PRC, LAO, UZB, INO, BHU, NEP, CAM	ADB's operations, guided by the strategic agenda and by agreement with each DMC, will be far more selective than previously, focusing on sectors and areas wherein ADB has clear strengths and resources to maintain an effective long-term program in a country (page 31).
2. Strategically plan nonlending activities including TA to improve the quality and efficiency of these activities. Strengthen staff incentives for economic and sector work. Align TA resources better to the country strategy and ensure that these resources are efficiently managed.	IND, PAK, PRC, LAO, UZB	To improve the effectiveness of technical assistance, ADB will develop better mechanisms and procedures for working with development partners within the framework of such TA (page 37).
3. Develop a joint operations strategy, covering both public and private sector sides of ADB, building synergies to enhance private sector development.	IND, PAK, PRC, INO	ADB envisages an expanded role in private sector operations over the duration of the strategy, which will also require particular attention to resource availability (page 45).
4. Review staff skills, build a strong knowledge base and expertise in core areas of assistance, and engage with DMC governments in policy discussions.	IND, SRI, PAK, PRC, UZB	To respond to evolving challenges, ADB must become a learning institution, maximizing the use of its vast knowledge and drawing upon resources, skills, and expertise both inside and outside the organization. It must develop the capacity to learn quickly from its own operations and disseminate such experience in the form of best practices among DMCs, ADB staff, and development partners (page 39).
5. Decentralize and delegate more authority and accountability to resident missions, while allocating adequate resources to be effective.	IND, SRI, PAK, PRC, LAO, UZB, INO, BHU	ADB has to project itself to all its constituents as being modern, flexible, creative, and efficient. To this end, it must utilize all resources at its disposal, harness modern technologies, and maximize the use of its representative offices and resident missions (page 40).
6. Streamline ADB policies, procedures, and practices to provide more efficient and responsive services to clients.	PRC, INO	To support the strategy, ADB will continue to adjust its internal business processes to make them more responsive to the needs of the DMCs, reducing response time, and enhancing country ownership (page 40).
7. Recognize that capacities vary by DMC and across sectors in a DMC. Build capacity for addressing safeguard issues and, where possible, gradually move toward country systems to reduce transactions costs of DMCs, consistent with the Paris Declaration.	IND, PRC, INO	At present, business processes are designed around project processing with an overemphasis on procedure and documentation. Processes that enhance quality, efficiency, and transparency in resource use and deliver better outcomes will be developed. Adaptability, flexibility, and efficiency will be key considerations in the review of business processes (page 40).

Selected Recommendations Common to the Last 10 CAPEs (since 2004)	Source CAPEs	Related LTSF Message
8. Develop a more strategic partnership with other development agencies to provide a more coherent assistance program and reduce transaction costs to the DMC.	LAO, CAM	Innovative partnerships are needed among aid agencies and international financial institutions. ...Increasing collaboration is required between participants in the development process (page 54).

ADB = Asian Development Bank, BHU = Bhutan, CAM = Cambodia, CAPE = country assistance program evaluation, DMC = developing member country, IND = India, INO = Indonesia, LAO = Lao People's Democratic Republic, LTSF = Long-Term Strategic Framework, NEP = Nepal, PAK = Pakistan, PRC = People's Republic of China, SRI = Sri Lanka, TA = technical assistance, UZB = Uzbekistan.

Sources: ADB. 2007. *Country Assistance Program Evaluation for India*. Manila; ADB. 2007. *Country Assistance Program Evaluation for Sri Lanka: Inclusive Development and Conflict Resolution: Major Challenges in the Future*. Manila; ADB. 2007. *Country Assistance Program Evaluation for Pakistan*. Manila; ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China: Success Drives Demand for More Innovative and Responsive Services*. Manila; ADB. 2006. *Country Assistance Program Evaluation for the Lao People's Democratic Republic*. Manila; ADB. 2006. *Country Assistance Program Evaluation for Uzbekistan*. Manila; ADB. 2005. *Country Assistance Program Evaluation for Indonesia*. Manila; ADB. 2005. *Country Assistance Program Evaluation for Bhutan*. Manila; ADB. 2004. *Country Assistance Program Evaluation for Nepal*. Manila; ADB. 2004. *Country Assistance Program Evaluation for Cambodia*. Manila; and ADB. 2001. *Moving the Poverty Agenda Forward in Asia and the Pacific. The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

5. The 10 most recent CAPEs were unanimous in stressing the need for sector selectivity, a key operational principle in the LTSF that has not been translated effectively in the country strategies and programs. As a result, ADB resources tend to be spread thinly across sectors and subsectors, often constituting one-off interventions that do not build synergies with other activities. While ADB's country agenda should be responsive to developing member country (DMC) requests pursuant to the LTSF principle of country leadership, its response should be based on ADB's competitive advantage and its willingness to finance a long-term engagement that would entail a critical mass of activities in a particular area.

6. The need to delegate more decision making to resident missions was raised in 80% of the CAPE sample. The CAPEs noted the tendency of a centralized structure to lead to longer response times (even for such routine services as procurement and disbursements); inadequate project supervision and troubleshooting due to distance, language, and cultural constraints; and reduced ability to stay attuned to market developments.

7. The other strategic findings refer to better integration of public and private sector aspects of ADB activities, improved partnerships with other development partners, and more effective management of technical assistance resources, all in support of a more coherent country program. The remaining lessons deal with increasing operational efficiency through the streamlining of policies and procedures, augmentation of staff skills, and enhancement of country safeguard capacities.

8. In terms of the bottom-up approach, Table A5.3 shows the trends in ADB's sector performance based on Operations Evaluation Department's evaluations and on project completion reports. The information is presented according to the year when the review was completed, and not the year when projects were approved. It provides the latest information on project success rates rather than impact of the LTSF on success rates. The sectors with the most successful ratings are those on physical infrastructure (transport and energy), averaging 82% over the 12-year period considered. In all these years, the share of successful projects to the total evaluated for these sectors never fell below 60%. This finding cannot be extended to all the subsectors though, as the 2006 Annual Evaluation Review² found the performance of ADB

² ADB. 2006. *Annual Evaluation Review*. Manila (paras. 33–34).

projects on railways and power sector restructuring to be considerably weaker than the other transport and energy subsectors.

Table A5.3: Success Rates of Public Sector Loans
(% of evaluated projects by sector per year)

Sector													1995–	2001–
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2000	2006
Agriculture and Natural Resources	50.0	41.7	8.3	29.4	45.5	28.6	33.3	69.2	57.1	45.5	63.6	45.5	35.1	52.0
Finance, Industry, and Trade	80.0	63.6	0.0	0.0	40.0	42.9	66.7	57.1	81.8	83.3	60.0	85.7	47.4	72.7
Law, Economic Management, and Public Policy								40.0	33.3	75.0	33.3	80.0		55.0
Physical Infrastructure (Transport and Energy)	87.5	63.6	92.9	66.7	80.0	63.6	88.9	89.3	95.0	77.3	86.4	94.1	75.2	88.2
Water Supply, Sanitation, and Waste Management	0.0	66.7	28.6		50.0	50.0	50.0	100.0	66.7	61.5	100.0	50.0	38.9	71.9
Social Sectors (Education and Health)	75.0	50.0	60.0	0.0	50.0	75.0	44.4	83.3	81.8	84.6	70.0	81.8	55.0	75.8
Multisector	60.0	55.6	40.0	75.0	71.4	80.0	77.8	60.0	85.7	42.9	70.0	63.6	65.0	64.3
Grand Total	66.0	56.3	46.7	44.4	61.1	59.6	62.5	76.7	77.8	66.3	73.6	75.0	56.1	72.1
Note:														
Total Number of Projects/Programs Rated HS/GS/S	33	27	21	20	33	31	35	56	56	55	53	48	165	303
Total Number of Evaluated Projects/Programs	50	48	45	45	54	52	56	73	72	83	72	64	294	420

GS = generally successful, HS = highly successful, S = successful.

Note: Based on combined ratings of the project completion reports and project performance evaluation reports circulated between 1995 and 2006.

Source: Operations Evaluation Department database.

9. The sector with the lowest success rate is the agriculture and natural resources sector, averaging only 43% over the 12 years. Except for 2002, 2003, and 2005, the success rates for this sector did not exceed 50%, and such poor performance is noted in both Asian Development Fund- and ordinary capital resources-funded projects. The 2006 Annual Evaluation Review notes that some ADB irrigation and drainage projects have achieved good results (footnote 2, para. 45). The poor performance of agriculture and natural resources projects may not be inherent in the sector but may reflect the project designs adopted in the past. Further review of the factors affecting the performance of such projects may be needed.

KEY ISSUES RAISED BY AND RECOMMENDATIONS OF THE ADB DEVELOPMENT EFFECTIVENESS COMMITTEE

1. The Development Effectiveness Committee (DEC) of the Board of Directors was set up in January 2001 to ensure that the programs and operations of the Asian Development Bank (ADB) result in the outcomes that were targeted in its policies and strategies and make efficient use of its resources. In support of these objectives, the DEC prepares an annual report to the Board highlighting specific development effectiveness issues and recommendations based on its assessment of the adequacy and efficiency of ADB's program of independent evaluation and its review of the annual performance of ADB's portfolio. Table A6 presents these issues and proposals based on the annual reports of the DEC for 2004, 2005, and 2006, identifying only those that are relevant to the discussion of the Long-Term Strategic Framework. The key issues and recommendations are summarized and presented from the most recent to previous, identifying the recommendations and issues that were repeated. They are also separated into the five areas under which the institutional effectiveness was analyzed in Working Paper 8.

Table A6: Key Issues and Recommendations for ADB Action

Development Effectiveness Committee's Annual Report for 2006
<p>A. Implementation Responsibilities and Accountabilities</p> <ul style="list-style-type: none"> • Engage an independent external body to undertake a comprehensive review of the Asian Development Bank's (ADB) human resource strategy and explore the feasibility of strengthening ADB's staff performance appraisal systems to provide stronger incentives to focus on project quality at entry and project supervision. [<i>paras. 27iii and 28</i>]
<p>B. Strategic Processes</p> <ul style="list-style-type: none"> • Include sections in the country partnership strategies that explain how strategies are translated into operational programs and how lessons from past portfolio performance, country assistance program evaluations (CAPEs), and Development Effectiveness Committee's (DEC) recommendations are taken into account. [<i>para. 18</i>] • In the preparation of CAPEs, seek the government's specific views on how ADB could become a more relevant development partner, with a section summarizing these government views highlighted as a focal point in the CAPE. [<i>para. 19</i>] • Revise safeguard policies to incorporate a better balance between the dual objectives of compliance and achievement of positive results at the national level. Incorporate an implementation approach that distinguishes between medium-term milestones and desired long-term standards, leading to a progressive achievement of sustainable results. Define a practical and agreed upon framework for stakeholder collaboration in applying safeguards, with the objective of ultimately relying on the country system. [<i>para. 20</i>] • Form a staff working group that will redefine the role of agriculture and rural development in poverty reduction. Its output will be an input into the review of ADB's Long-Term Strategic Framework. [<i>para. 22</i>]
<p>C. Resource Allocations for Implementation</p> <ul style="list-style-type: none"> • Consider all staff resource requirements for the implementation of new policy and strategy proposals or reviews submitted to the Board. [<i>para. 21</i>] • (<i>Follow-through of 2004 and 2005 recommendations</i>) More flexibility should be built into budget and staff resource reallocation, both within and across departments, so that project supervision (particularly of projects flagged as being at risk) receives adequate attention. [<i>para. 29ii</i>]
<p>D. Operational Management</p> <ul style="list-style-type: none"> • (<i>Follow-through of a 2004 recommendation</i>) To measure portfolio performance and as a first step in measuring and reporting on ADB's development results, pilot-test annual reporting on the production of outputs against projections in selected sectors as a better alternative to relatively unreliable ratings in project performance reports. [<i>para. 29j</i>]

<p>E. Knowledge Management</p> <ul style="list-style-type: none"> • <i>(Follow-through of a 2005 recommendation)</i> Management should provide to the DEC brief periodic updates on progress in implementing the action plan to improve loan and technical assistance (TA) portfolio performance. This is intended to supplement the more comprehensive full-year report to the Board, which should be the subject of a full Board discussion. [para. 35]
<p>Development Effectiveness Committee's Annual Report for 2005</p>
<p>A. Implementation Responsibilities and Accountabilities</p> <ul style="list-style-type: none"> • Management should propose a comprehensive action plan to address the key strategic issues analyzed in the annual report, specifying how ADB will move forward to address the major portfolio issues. This will address the systemic weakness in the process by which actions on DEC recommendations that are endorsed by the full Board to Management are planned, monitored, and implemented by Management. [para. 28] • Management should establish a system for monitoring the cumulative progress of actions on recommendations of the Operations Evaluation Department. [para. 40] • The Strategy and Policy Department should report periodically to the DEC on the progress of actions on the Managing for Development Results agenda. [para. 40]
<p>B. Strategic Processes</p> <ul style="list-style-type: none"> • Rethink the whole system of TA provision, with an urgent need to improve the quality of ADB's TA. [para. 25]
<p>C. Resource Allocations for Implementation</p> <ul style="list-style-type: none"> • <i>(Follow-through of a 2004 recommendation)</i> Build flexibility in staff allocation so that project supervision, particularly of projects at risk, receives adequate attention. [para. 16iv] • Despite a 30% increase in the ratio of total number of professional staff to total number of active projects from 1995 to 2004, along with a significant increase in consultant years, there was an apparent decrease in professional staff time allocated to review missions. [para. 24] • As a first step, reduce the number of new TA approvals, based on the underlying principle that no TA should be "supply driven." Resources freed up in processing the TA should be directed to more effective MfDR in TA implementation. [para. 25]
<p>D. Operational Management</p> <ul style="list-style-type: none"> • <i>(Follow-through of a 2004 recommendation)</i> Pilot-test reporting on the production of outputs against projections in selected sectors. [para. 16j] • <i>(Follow-through of a 2004 recommendation)</i> Make project readiness criteria mandatory. [para. 16ii] • <i>(Follow-through of a 2004 recommendation)</i> Use critical path analysis in project preparation and implementation. [para. 16v]
<p>E. Knowledge Management</p> <ul style="list-style-type: none"> • <i>(Follow-through of a 2004 recommendation)</i> Assess development effectiveness in private sector operations. [para. 16iii]
<p>Development Effectiveness Committee's Annual Report for 2004</p>
<p>A. Implementation Responsibilities and Accountabilities</p> <ul style="list-style-type: none"> • <i>(Follow-through of an earlier recommendation)</i> Accelerate the process of delegation to resident missions with contingent actions, including transfer of resources from headquarters, as appropriate. [para. 23]
<p>B. Strategic Processes</p> <ul style="list-style-type: none"> • <i>(Follow-through of an earlier recommendation)</i> Apply a more strategic and results-based approach to TA resource allocation, particularly in the case of advisory TA, based on a strengthened role of resident missions. Specify a concrete action plan for improving the management of the TA portfolio, including improvement in the achievement rate on TA completion reports. [para. 24]

<ul style="list-style-type: none"> Review the transaction costs and value added of the conditions and processes it follows, and introduce flexibility with a view to speeding up processing, lowering transaction costs, and customizing responses without prejudicing development outcomes or good governance principles. Give greater focus on results and less on process to allow more staff time to be allocated to achieving development outcomes. [para. 27]
<p>C. Resource Allocations for Implementation</p> <ul style="list-style-type: none"> <i>(Follow-through of an earlier recommendation)</i> Further analyze the reasons for the reduced net resource transfer to better understand the trend (heavily influenced by prepayments) on a country basis and to undertake corrective action if called for. A related issue is the concentration of lending assistance (wherein two countries account for half of new lending), which may not be compatible with the overall goals of regional poverty reduction and regional development effectiveness, and poses a business risk to ADB (for when the borrowers no longer find ADB products relevant, responsive, or competitive). [para. 20] Allow more flexibility in budget and staff resource allocation, both within and across departments, so that projects flagged as being at risk get extra supervision. [para. 25]
<p>D. Operational Management</p> <ul style="list-style-type: none"> <i>(Follow-through of an earlier recommendation)</i> In light of persistently excessive loan effectiveness delays, introduce project-readiness criteria as a mandatory management tool, rather than just an advisory option. [para. 21] Adopt more realistic implementation schedules, and recognize that decreasing project complexity often results in more realistic schedules. Preparatory TA should incorporate critical path analyses (to identify the critical path, expected task durations, and key milestones in project implementation), and routinely use the project management software on critical path analysis during project implementation. [para. 26] <i>(Follow-through of an earlier recommendation)</i> Specify a concrete action plan for improving the management of the TA portfolio, including improvement in the achievement rate on TA completion reports. [para. 24]
<p>E. Knowledge Management</p> <ul style="list-style-type: none"> Pilot-test annual reporting on the production of ADB outputs against projections in selected sectors. This is envisioned to evolve into a results-based performance measure that would serve to more fully reflect ADB's contribution to development. [para. 19] Measures of development effectiveness, not just of financial performance, should be specified for private sector operations during design and monitored during implementation. [para. 22] Increase the quality of TA completion reports and enhance their use as learning tools, especially in distinguishing successful TA from less successful ones. Synthesize at the country level the lessons learned from TA evaluations so they can be used more effectively for coordination with other agencies in planning and implementing country TA. [para. 36] Given that the trend of declining success rate for projects completed since 1974 was reversed in 1989 and has steadily increased since then, further analyze the reasons behind this positive trend (change in mix of borrowers, increase country capacity, and incorporation of lessons learned) so that there is a clearer understanding of what has gone well and what can be done better. [para. 35]

Source: ADB. Annual reports of the Development Effectiveness Committee for 2006, 2005, and 2004.

2. Table A6 shows that a number of DEC recommendations from previous annual reports have not been implemented yet. These include (i) building more flexibility into budget and staff resource reallocation, both within and across departments, so that project supervision (particularly of projects flagged as being at risk) receives adequate attention; (ii) pilot-test annual reporting on the production of outputs against projections in selected sectors as a better alternative to relatively unreliable ratings in project performance reports; and (iii) provide to the DEC brief periodic updates on the progress in implementing the action plan to improve loan and technical assistance portfolio performance.

3. In its 2006 annual report, the DEC strongly acknowledged that its program and interactions can be made more effective, especially with respect to (i) the extent to which the Board of Directors uses the DEC's findings, and (ii) the extent to which the DEC is able to influence Management to improve the development effectiveness of ADB's operations. In this regard, the DEC intends to propose adjustments in its terms of reference.

AN ILLUSTRATIVE RESULTS FRAMEWORK FOR THE LONG-TERM STRATEGIC FRAMEWORK

Vision: An Asia and Pacific Region Free of Poverty

Mission: To help our developing member countries reduce poverty and improve living conditions and quality of life

Development Results	Performance Indicators	Monitoring Basis	Evaluation Evidence	Risks and Assumptions
<p>Long-Term Impact: Contribution to eradicating poverty in Asia and Pacific</p>	<ul style="list-style-type: none"> ➤ Income poverty reduced to the minimum ➤ All MDGs achieved by the majority of DMCs ➤ Inequality significantly reduced 	<p>Compare against 2008 baseline day on poverty incidence, Gini coefficients, and MDGs</p>	<p>Composite index of success rate (development effectiveness) at project, sector, and country levels significantly improved over 2008 baseline</p>	<ul style="list-style-type: none"> ➤ No major crises in economic, political, and environment aspects in the region ➤ Maximum DMC ownership ➤ Full support from development partners
<p>Outcomes by Subregion</p> <ul style="list-style-type: none"> ➤ Economic growth ➤ Poverty reduced ➤ Inequality reduced ➤ Governance improved ➤ Environment improved ➤ Improved regional trade and investment 	<p>Changes over baseline data on key social, economic, and environment indicators</p>	<ul style="list-style-type: none"> ➤ Regional and country level partnership documents ➤ Economic growth rates ➤ Poverty and inequality indicators ➤ Governance index ➤ GHG emissions, water quality, air pollution in urban areas ➤ Regional trade index ➤ Infrastructure Index ➤ Competitive index ➤ Investment climate index 	<p>Operations evaluation reports at subregional, country, and regional levels</p>	<ul style="list-style-type: none"> ➤ Subregional- and country-level partnership strategies and program synergized ➤ Regular monitoring and evaluation
<p>Outputs in key sectors by country and subregion: e.g., infrastructure, ANR, health, education, environment</p>		<ul style="list-style-type: none"> ➤ Country partnerships and strategy results framework ➤ Sector road map results framework at regional and country level 	<p>Operations evaluation reports at regional, country, and sector and thematic levels</p>	<ul style="list-style-type: none"> ➤ High quality CPSs and sector road maps ➤ Timely implementation of sector level investments
<p>ADB inputs and activities:</p> <ul style="list-style-type: none"> ➤ Lending ➤ Nonlending ➤ Bilateral cofinancing 	<ul style="list-style-type: none"> ➤ Increase in volume and value in lending, nonlending, and cofinancing in sovereign and 	<ul style="list-style-type: none"> ➤ Planning directions ➤ Budget frameworks and work program ➤ Country level business plans ➤ Operational data 	<p>Operations evaluation reports at project level and validation of self-evaluation at</p>	

Development Results	Performance Indicators	Monitoring Basis	Evaluation Evidence	Risks and Assumptions
<ul style="list-style-type: none"> ➤ Commercial cofinancing ➤ Budgetary and human resources deployment ➤ Delegation and decentralization ➤ Responsibilities and accountabilities ➤ Internal control and information systems ➤ External relations ➤ Partnerships and harmonization ➤ Institutional effectiveness 	<ul style="list-style-type: none"> nonsovereign sectors ➤ Increase in volume and values in lending and nonlending for regional cooperation operations ➤ Key partnerships added ➤ Operating efficiency indicators (e.g., administrative cost per unit of transaction) ➤ Improved monitoring and evaluation systems for development results ➤ Increased decentralization with authority and resources to resident missions 	<ul style="list-style-type: none"> ➤ Management information system ➤ Client and partner perception surveys 	project and country levels	

ANR = agriculture and natural resources, CPS = country partnership strategy, DMC = developing member country, GHG = greenhouse gas, MDG = Millennium Development Goal.

Source: Compiled by the Operations Evaluation Department's long-term strategic framework team.

**MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION STUDY
ON LONG-TERM STRATEGIC FRAMEWORK:
LESSONS FROM IMPLEMENTATION (2001–2006)**

On 22 January 2008, the Officer-in-Charge, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We welcome OED's Special Evaluation Study (SES) of the Long-term Strategic Framework (LTSF) with its focus on lessons learned from implementation during the 2001 to 2006 period. The SES provides a good overview and succinctly covers the broad spectrum of activities envisioned under the LTSF. The SES is timely and provides important inputs to formulating the LTSF (2008-2020) and the lessons learned are a valuable reference for planning the implementation of ADB's future strategic framework. We note the frequent interactions with OED in preparing the LTSF (2008-2020) Working Paper (W-Paper), which was circulated to the members of the Board of Directors on 26 December 2007.

2. We generally concur with SES's evaluation ratings of LTSF implementation. We also note the SES's emphasis placed on the importance of giving greater focus on developing member countries' (DMCs') needs and priorities. We believe that the wide spectrum of development needs in Asia and the Pacific region, however, precludes any one institution from meeting all DMCs' needs and priorities. Given limited resources, ADB must make strategic choices on the areas of its operational focus with the aim of enhancing its development effectiveness. The recent regional consultation meetings on LTSF also reiterated the need for ADB's selectivity and focus in its operations in order for ADB to provide the most relevant and highest quality assistance to its DMCs.

II. Comments on the Findings of the Study

3. **Inclusive Social Development.** The SES assessed LTSF's strategic priority of inclusive social development as highly relevant, but ADB's responsiveness and results as low. As stated in the SES, we note that this assessment was not based on complete analysis of the impact of development assistance in the DMCs. In undertaking more complete analysis, the impact of the fiscal space created by DMCs' borrowing for income-generating projects, such as infrastructure, allowing for higher investment in social sector programs and projects, should also be taken into account.

4. **Governance and the second Governance and Anticorruption Action Plan (GACAP II).** We agree with OED's evaluation rating on governance but would emphasize that GACAP II should not be seen as limiting ADB's governance work to anticorruption and sector level governance. Contrary to SES findings, we believe that GACAP II provides a clear and effective strategy to guide ADB's operations in governance. In our view, GACAP II has given focus and direction to what was previously a broad and diffused governance agenda by focusing on three priority areas: financial management, procurement, and

anticorruption. Moreover, GACAP II does not preclude ADB from engaging in broader governance issues, in areas of strong demand from our DMCs and where ADB has a comparative advantage.

III. Comments on the Recommendations of the Study

Recommendation 1. Focus on each DMC's binding development constraints and sector priorities, followed by sector selectivity within ADB based on its comparative advantage and greater collaboration with other development partners will help to ensure that ADB's products and services are demand driven.

5. This recommendation confirms the importance of what we have been doing in our country operations. Within this well-intentioned principle, ADB has identified and addressed DMC's binding development constraints, beginning with country partnership strategies, and through its sector studies, projects and programs. However, to enhance effectiveness and achieve results, we believe that ADB's assistance for addressing DMCs' binding constraints to development must be determined in relation to the agreed areas of ADB's comparative strength, and where ADB has a corporate-wide operational focus and the critical mass of expertise. The LTSF (2008-2020) W-paper proposes to expand the scope of partnership as a requisite measure to enhance ADB's effectiveness. This will require yet closer coordination with our development partners, increased harmonization in business processes and procedures, and will in some instances entail higher transaction costs, at least in the initial phase.

Recommendation 2. Reduce the range of high-level strategic documents and statements to guide operations more effectively.

6. We concur with this recommendation and plan to streamline high-level strategic documents and statements subsequent to adoption of the LTSF (2008-2020) in order to improve coherence in ADB's corporate strategies and policies.

Recommendation 3. Enhance strategic clarity by focusing on one set of strategic directions over a combination of sector and thematic areas.

7. We fully support the recommendation. We will take the opportunity of formulating the LTSF (2008-2020) to present a single long-term vision and strategic directions. As proposed in the W-Paper, the organization's vision would continue to be an 'Asia and Pacific region free of poverty', and ADB operations will focus on three development agendas: inclusive growth, environmentally sustainable growth, and regional integration. However, at the operational level, ADB will continue to address multiple development sectors and issues, in a complementary or integrated manner.

Recommendation 4. Expand private sector operations by developing synergies between ADB's public and private sector operations.

8. ADB has promoted expansion of private sector operations since the 2002 reorganization and have achieved significant increase in lending volume from its private sector window. Building on these achievements, creating stronger synergy between the public sector and private sector operations is proposed as a

key focus area under the LTSF (2008-2020) W-paper, with the aim to overcome DMCs' private sector development constraints and increase ADB's private sector operations and meet the rising regional demand.

Recommendation 5. Increase investment in ADB's human resource development, and manage institutional change.

9. Measures have been adopted to increase investment in ADB's human resource development and will continue as an area of importance. Also, alternative approaches for cost effective mobilization, deployment and retention of staff, including more flexible recruitment practices are being introduced. Subsequent to the staff engagement survey being undertaken in early 2008 and the adoption of LTSF (2008-2020), we will review the Human Resources Strategy (HRS) with the assistance of external experts and plan for appropriately increasing investment for ADB's human resource development.

Recommendation 6. Provide a better balance in terms of resource allocation and incentives between project preparation and implementation.

10. ADB has been making steady progress in balancing resources between project preparation and implementation, resulting in improved loan and technical assistance portfolio performance. Efforts will continue under the implementation of the LTSF (2008-2020) as we re-examine resource allocation and incentives in the context of enhancing ADB's institutional responsiveness and the review of HRS.

Recommendation 7. Strengthen ADB's capacity to provide knowledge products and services.

11. We agree with this recommendation. The LTSF (2008-2020) W-paper proposes measures to strengthen ADB's capacity for delivering high-quality knowledge products and services, primarily in the areas of its operational focus. ADB also has a role to play as a knowledge conduit by working in partnership with variety of institutions and utilizing modern information and communications technologies.

Recommendation 8. Enhance ADB's data quality and information management systems and provide a set of performance indicators to monitor and evaluate progress in achieving strategic directions and likely development results.

12. We broadly concur with this recommendation. In the LTSF (2008-2020) W-paper, we propose to put in place a set of performance indicators and a database in support of implementing the LTSF (2008-2020). The database will aid in tracking results against performance indicators so that corrective actions can be taken at an early stage. The importance of streamlining the business processes in creating an effective data management system is also recognized.

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee Discussion on 6 February 2008

Special Evaluation Study on the Long-Term Strategic Framework: Lessons from Implementation (2001-2006)

1. The special evaluation study examined the existing Long-Term Strategic Framework's (LTSF) relevance, ADB's responsiveness to its strategic guidance, and LTSF's influence on ADB's standpoint on results and on achieving development effectiveness. Though the LTSF was prepared for 2001-2015, the study covered the implementation of the strategy for 2001-2006.
2. DEC considered both the recommendations of the study and the responses and updates by Management to the recommendations. The Committee's discussion broadly focused on the following key issues:
 - (i) **Sector Selectivity.** The study recommends that ADB products and services should be developed on the basis of client demands, ADB's expertise, and opportunity for collaboration with other development partners. There was general agreement on the principle of identifying and addressing the DMCs' binding development constraints. Management has been pursuing this approach in its country operations through country partnership strategies (CPS), sector studies, and in its projects and programs.
 - (ii) **Available Staff Expertise.** DEC identified that while there was a shortage of necessary skills, this was also aggravated by a failure to efficiently allocate the exiting expertise across jobs and making sure that the expertise is diligently and appropriately applied. Management acknowledged that ADB has expertise available to support key initiatives but this expertise is sometimes diffused in its application. This issue will be addressed in the implementation of LTSF.
 - (iii) **Environment Sustainability.** DEC noted the limited initiatives on mainstream environment projects. Most of ADB's engagement on environment sustainability involves addressing environmental issues arising from its infrastructure, rural and urban development, and other projects.
 - (iv) **Private Sector Development.** DEC agreed with the recommendation of developing synergies between ADB's public and private sector operations to foster private sector development in DMCs. Management emphasized that the new LTSF proposes building on ADB's achievements in increasing the lending volume from its private sector window, and creating synergy between public and private sector operations. Further, the results-based CPS tries to develop the necessary synergies. Management also stated that the Private Sector Operations Department (PSOD) has consistently been allocated with additional staff positions.

DEC suggested that a study be undertaken to compare PSOD and IFC, not only in terms of functioning but also in terms of organizational structure.

- (v) **Monitoring and Evaluation.** Management acknowledged that currently available data was scattered across different systems. There was no efficient retrieval system allowing easy access to all relevant data. There is a need to create a system that provides up-to-date information on emerging challenges such as the environmental and gender issues, and capacity development. The new LTSF hopes to establish a new set of priorities and to achieve a single set of ADB-wide indicators. Management noted the need to have a system that is user-friendly and flexible enough to easily adapt to changes in priorities. DEC emphasized that indicators must be results-based rather than inputs-based.
- (vi) **Organization of Strategy.** DEC agreed that currently there are various documents detailing strategies with an unclear hierarchy and often leading to confusion among staff.

3. Based on the discussions, DEC concluded that:

- (i) There is a problem at the corporate level of having multiple strategy and planning documents with undefined hierarchy. This creates unintended confusion. There may be merit in having one single volume of strategy documents, which is updated regularly and is checked carefully for internal consistency.
- (ii) The evaluation study is constrained by the fact that it is too early to judge the outcome and impact of the LTSF. The findings are mainly in terms of the functional classification of ADB loans, and geographical distribution of disbursed amounts.
- (iii) There is a serious need for better data collection and management systems. Since data classification and strategic directions have been changing over time, it is difficult to compare the effectiveness of the LTSF to that of the older strategy. There is merit in considering an improvement in the data collection and management system on a fast-track basis.
- (iv) LTSF should set out goals that are specific to the corporate performance of ADB and are monitorable. ADB's goals are separate from, and should not be confused with, the goals of the Asia-Pacific region. There should be a clear business strategy to tap the existing window of opportunity, and an organizational game plan to equip ADB to implement the strategy.
- (v) The strategy should contain an effective component to counter the external challenge of being unable to maintain ADB's relevance in a competitive and dynamic Asian financial market.
- (vi) There should be some flexibility regarding sector selectivity in order to find the right balance between DMCs' varied needs and ADB's core competencies.
- (vii) There should be an evaluation of PSOD vis-à-vis IFC, including the basic organizational differences between PSOD and IFC. OED will provide DEC with their earlier comparative study of the two organisations.

- (viii) Indicators of both financial and human resources needed for achieving ADB's corporate goals should be part of the new LTSF.
- (ix) To aid future evaluation, a robust monitoring and evaluation framework should be an integral part of LTSF.
- (x) The required resources, both staffing and financial resources, for implementation of LTSF should be ensured. To mobilize more concessional funding for inclusive social development will be particularly important.
- (xi) ADB should deliver its knowledge products and services based on demand of the DMCs.



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