

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee Discussion of 15 June 2011

Discussion Highlights

I. Declining success rate in portfolio performance

1. The Development Effectiveness Committee (DEC) noted the declining success rate of the Asian Development Bank's (ADB's) performance and noted that significant corrective measures need to be taken to reverse the declining trend. The DEC Chair inquired as to whether the 80 per cent target for 2012 should be adjusted to reflect the decline. In particular, concerns were raised about the sharp decline in the education sector, in some subsectors of agricultural and natural resources, and in finance and public sector management sectors. Likewise, DEC noted that the success rate in agriculture particularly livestock and fisheries, remains low. DEC further noted that the decline in the success rate is driven by two factors, that of sustainability and efficiency. Independent Evaluation Department (IED) concurred with this observation.

2. Attention was drawn towards the performance of Pakistan where the portfolio was restructured (in fact staff indicated that it was still ongoing) but where benefits still had to materialize in the next 2-3 years, unlike that of other countries such as Bangladesh, India, Nepal and the Philippines, where performance improved after restructuring. In a similar vein, DEC noted that poor performance of a conflict-affected country may reflect poor project design, and should not be blamed necessarily on the conflict itself. DEC asserts that operations should be sensitive to country circumstances and should factor this consideration in its design. DEC also noted the low approval and completion rate of regional investment projects in 2009. DEC highlighted the importance of understanding sentiments of member countries in order to achieve progress in regional cooperation and integration.

3. Principal Director, Central Operations Services Office (COSO) explained that Pakistan's case is not exceptional in the sense that it follows the experience of other countries where restructuring has taken place. When restructuring happens, (i) projects are closed before the money is used up thereby increasing the likelihood of projects being unsuccessful or partially successful; and (ii) the number of project completion reports (PCRs) is expected to increase. He asserted that nevertheless restructuring remains a powerful tool which should be encouraged in appropriate cases. In the case of Pakistan, ground realities changed in the aftermath of 9/11 and the 2002 elections. Projects, which were earlier premised on decentralization, did not work as a result, and the restructuring in 2007, done with the full consent of the government, was the correct move. He also opined that important lessons, particularly the need for simpler project designs which are better implementable, were learned from this experience.

4. On the suggestion to strengthen the technical and management capacity of parallel project implementation units, DEC inquired whether these were aligned with the Paris Declaration in regard to supporting country systems. Members also inquired whether IED's recommendation to strengthen proactive supervision by resident mission staff to increase the likelihood of project success was consistent with the "One ADB" approach. Management agreed with IED's recommendation and opined that it was an efficient use of staff resources. Staff also remarked that while the Paris Declaration principles on country systems were widely read as an all or nothing approach, perception on these principles may have been shifting of late. ADB's approach was to follow its guidelines while actively engaging countries who were willing to dialogue towards procurement reform. While ADB may not be using country systems as yet, it was on its way to improving country systems and was moving strongly towards that direction.

5. With regard to the DEC Chair's inquiry on adjusting the 80% success rate goal, the Managing Director General opined that the target should be kept in order to motivate departments to improve performance. It was also noted that the shortfall in achieving the target had prompted a review of the project cycle and led to improvements in business processes. Improvements on quality at entry, risk-based categorization, peer review, early planning for implementation was a response to earlier DEfR, and some of the indicators were positive.

II. Management Action Record System (MARS)

6. DEC was pleased about the implementation of MARS and found the system very useful. One of the concerns raised about MARS pertained to the frequency of system update. Another concern was the extent to which Management used MARS as a tool, particularly when it agreed to a set of recommendations and was implementing them. Sometimes the IED found that recommendations accepted by Management were only partially adopted. While the 9 per cent disagreement rate on average between IED and management on IED recommendations over the last three years was viewed as reasonable, DEC requested IED to distinguish between cases on the basis of reasons of an operational nature and reasons of substance.

7. IED pointed out that Management's performance in MARS was improving, and the system was only in its second year. Furthermore, ADB was the first among MDBs to adopt such a system online. IED cautioned that actions taken on the recommendations were usually output-related, and it did not automatically follow that the outcome would occur once the action is taken. While assuring DEC that it would make a distinction between operational and substantive recommendations in the next round, IED noted that in this review period, only one out of 22 disagreements related to the substance of the recommendation.

8. Management underscored its commitment to MARS and remarked that the delay in acting on some recommendations was due to exogenous factors. Southeast Asia Department (SERD) elaborated the context in which MARS figured in its operations and opined that it assisted the department in organizing recommendations and ensuring transparency. But it pointed out that the volume and nature of recommendations eventually took a toll because they had to be processed manually before being uploaded onto MARS. While SERD hoped that IED recommendations would be more specific or prescriptive to solve this problem, DEC expressed its preference for IED not to be too specific or prescriptive in its recommendations and not to infringe on Management's role to decide about the corrective course of action.

III. Nonsovereign operations

9. DEC noted the key lessons IED derived from evaluating non-sovereign operations and inquired whether Management agreed with the findings. They also noted that the greatest proportion and number of unsatisfactory and partly satisfactory ratings were on investment profitability and inquired the reasons thereof. Private Sector Operations Department (PSOD) indicated that it was receptive to all the recommendations and observations made particularly on the commercial viability of mortgage finance for lower and middle income customers. PSOD staff sought clarification from IED with regard to relying on government regulators as funding source as they perceived this as a source of potential conflict of interest.

10. PSOD staff also clarified a number of issues related to equity investments, stressing that PSOD's objectives were: (i) to ensure a potential or a practical exit from those investments; (ii) to partner some equity investments with work undertaken by regional departments in policy reform; (iii) to ensure that appropriate incentives and safeguards for contractual arrangements were in place for private partners; (iv) to put in place some form of self-liquidating procedures in high risk environments; (v) to ensure value addition in terms of corporate governance environment, specifically in Pacific markets; and (vi) to implement well-designed and properly sequenced technical assistance for non-sovereign projects.

11. With regard to a DEC member's inquiry on the profitability of the two private equity funds, PSOD staff stressed that it would be difficult to draw conclusions for the overall portfolio on the basis of the two equity funds. They stressed that while investment profitability was a very important criterion in evaluating the transactions, they must also take into account two other criteria, namely development impact and bankability, as the latter criterion was the key to replicating success. PSOD staff assured DEC that the department was a profit centre and made \$175 million profit on its investments last year.

12. Noting that a significant part of PSOD's work is in so-called frontier markets or countries, DEC inquired on the reasonable benchmark to expect from PSOD's experience. PSOD staff asserted that it would be difficult to benchmark its performance against any established indices because these other indices covered investments that were far different from the type of investments PSOD was engaged in.

IV. Evaluation performance and capacity development

13. DEC inquired about IED's assessment of its own performance and sought clarification about: (i) how it addressed subjectivity in its evaluation findings; (ii) whether it would consider using randomized evaluation; and (iii) the extent to which the principles of the Paris Declaration had been mainstreamed. IED opined that while it could not evaluate its own performance, past donor evaluations conducted by Department for International Development (DFID) of the United Kingdom and the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) showed that IED was rigorous and well-balanced among the Multilateral Development Banks (MDB) Evaluation Cooperation Group. IED also clarified that subjectivity was minimized by following good practice standards prescribed by the MDB Evaluation Cooperation Group and DAC. On randomized evaluation, IED explained that it had not yet applied randomized evaluation technique because it required IED to be involved in the beginning of the project as well, apart from addressing the difficulty of establishing a control group. However, IED assured DEC that it was strengthening its impact evaluation capacity. IED also stressed the need to build capacity first before undergoing joint evaluations with developing member countries (DMCs). At present, joint evaluations are conducted with donor agencies.

14. Referring to the capacity of operational staff to conduct good quality midterm review, DEC inquired about IED's efforts to develop such capacity. DEC also noted that IED should balance its involvement in actual evaluation activity and in training staff. IED assured DEC that staff were trained on evaluation concepts of relevance, effectiveness and efficiency. While the said training for operational staff was focused on preparing PCRs, the concepts were likewise applicable to project design and midterm review stages. With regard to balancing evaluation activity and evaluation training, IED noted that the budget allocation was balanced. Country assistance programme evaluations (CAPEs), sector assistance programme evaluations (SAPEs), and validation reports accounted for about 39 per cent of the budget; knowledge products for 32 per cent; and evaluation capacity building and dissemination activities for the residual 29 per cent.

Conclusion

DEC welcomed the 2011 Annual Evaluation Review. It provided members an opportunity to take stock of the evaluation work done by the IED, the recommendations, the action taken by Management, and the overall state of affairs in ADB's development work. Members expressed concern about the declining success rate of projects and noted that efforts were needed to meet the corporate target of 80 per cent success rate by 2012. This concern was heightened by the portfolio restructuring undertaken in the context of conflict in some countries. The declining success rate in education and regional cooperation needed particular attention. The degree of disagreement between Management and IED on recommended actions (at an average of 9% over 2008-2010) was deemed reasonable and acceptable. With regard to the Management Action Review System, which was performing satisfactorily, DEC encouraged Management and staff to improve it further by enabling real time updates in the system through appropriate data capture.