

Chair's Summary of the Development Effectiveness Committee

18 February 2014

Special Evaluation Report – Inclusion, Resilience, Change: ADB Strategy 2020 at Mid-Term

1. The DEC welcomed the Independent Evaluation Department's Special Evaluation Report: Inclusion, Resilience, Change: ADB's Strategy 2020 at Mid-Term (IN.27-14) and appreciated the opportunity to discuss it with both IED and Management prior to the Board discussion on the Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and the Pacific (Working Paper 1-14). DEC also appreciated the constructive and collaborative approach taken by IED and Management in the preparation of these papers, and noted that inputs provided by the DEC in its discussions on other strategic issues such as private sector development, decentralization, environmental sustainability and disaster risk management, inclusive growth, and knowledge solutions, had been taken into account.

2. The DEC observed that the landscape of the Asia region has changed considerably over the past few years. Lower-income countries were becoming middle-income countries and were evolving in their priorities and demands, thus requiring ADB to adapt. ADB was seen as facing challenges in its lending capacity to match the scale of the development agenda in Asia and the Pacific, an issue that cannot be ignored in a strategic discussion as it has implications for ADB's institutional efficiency and effectiveness.

3. DEC members were interested how the Midterm Review (MTR) process can lead to tangible changes in the way ADB does business going forward. The DEC praised IED for focusing on the right set of challenges which need to be addressed in order to strengthen the impact of Strategy 2020, although the report's discussion of governance and regional integration were somewhat lacking due to absence of recent evaluative base. While recognizing that the discussion focused on strategy, some DEC members mentioned that ADB will also need a time bound action plan that elaborates on how and when the changes will happen, while others saw a need for some additional narrative to support any recalibration of ADB's strategic direction.

4. The DEC noted that a key issue for ADB is the fact that its project success rate has remained stagnant at 67% (lower in challenging regions such as the Pacific). DEC supported IED's view that ADB needs to re-orient its staff, teams, and organizational culture towards achieving excellence, which can be brought about by introducing stronger incentives, recognition and rewards for the delivery of successful projects with a focus on disbursements and project implementation rather than project approvals.

5. DEC supported plans to (i) streamline business processes to reduce delays in project implementation, (ii) promote efficient and cost-efficient procurement, (iii) develop career streams for technical and managerial staff, (iv) share resources across departments by mobilizing interdepartmental and interdisciplinary teams, and (v) empower resident missions (RM) and create incentives for staff to work in RMs. DEC members agreed with most of the IED recommendations, while some of the diverging views are covered in the next paragraphs.

Inclusive growth

6. DEC noted that in terms of inclusive growth, IED argues that targeted interventions comprised 21% of total operations over 2000-2012 and that the poverty focus under the inclusive growth agenda may have fallen rather than increased after the adoption of Strategy 2020. DEC agreed with IED's recommendation that in its infrastructure projects, ADB should seek greater economic and social inclusion and increase support for projects that broaden access to opportunities. But some DEC members cautioned against overcomplicating project designs in this effort to address inclusion.

7. While some DEC members supported the proposal that ADB's portfolio should increasingly focus on low-income groups, others expressed concern about IED's suggestion that ADB applies a filter – which could be included in the Country Partnership Strategy– to its infrastructure projects to ensure that benefits accrue to lower income groups (i.e. the bottom 40%) relatively more, as this would require obtaining sufficient reliable data on household incomes in project areas, and from a monitoring and evaluation this would raise the cost of projects to survey.

8. Recognizing that there is room for ADB to do more on inclusiveness, Management indicated that inclusiveness should be considered at the country level rather than at the project level, and that the CPS should consider areas of inequality where ADB could get involved, taking into consideration also what other development partners are doing. While DEC agreed with IED's view that all projects can be made to contribute to inclusive growth to some extent, a DEC member indicated that indirect benefits to the lower income groups also contribute to poverty alleviation and that projects should not be constrained by a need to have only direct benefit to the bottom 40%.

Review of 80% target for core areas versus 20% for noncore areas.

9. DEC noted that IED recommends that ADB ought to move away from the 80%-20% target and phase out the core/non-core distinction. A DEC member disagreed and indicated ADB should keep the 80%-20% target at the corporate level until 2020, in line with Management's view, while respecting that some countries may not want to achieve this target due to different demands. Some DEC members opined that selectivity and focus in operations continue to be essential because of ADB's limited resources, and ADB's need to become a specialized resource rather than an all-round player.

10. DEC supported IED's recommendations calling for efforts to raise effectiveness and sustainability and improving the link between outputs and outcomes. DEC agreed that in order for ADB to remain relevant in the region, ADB needs to show sustainable results on the ground. DEC agreed with the need to continue to improve project design and emphasized that the quality of the implementation support and monitoring is essential in obtaining sustainable results. A DEC member was particularly supportive of IED's proposal to rely more on results based lending (RBL), and move away from a focus on generating outputs to generating meaningful outcomes. Management provided information on upcoming RBL projects planned for 2014 and 2015.

11. Some DEC members expressed concern that ADB and IED reports may lead to commitments for ADB to do more work in many additional areas such as education, health, social protection, disaster risk management, micro-finance, good governance, urban transport, railways, etc. DEC urged Management to consider the existing challenges of maintaining a critical mass of staff with technical skills in transport, energy etc. While some DEC members considered that ADB will remain essentially an infrastructure bank, they were of the view that Management also needs to decide in what areas ADB will do less. Given the level of poverty and inequality in the region, a DEC member supported more interventions on social protection, but questioned the need to build up ADB's health portfolio given the existing lack of technical skills in our core areas. The member recommended that Management looks at how to address problems in some of ADB's key sectors such as finance and sanitation, in line with the needs of the region.

Regional Cooperation and Integration

12. DEC noted IED's recommendation for ADB to move beyond support for cross-border roads and transmission lines and increase support for food security, trade facilitation, natural resource management and disaster mitigation. A DEC member noted however that there is still a large demand for roads and transmission lines by DMCs to enhance regional connectivity and this demand is likely to continue for the next five years.

13. A DEC member considered that developing regional capital and bond markets is also very important for regional cooperation and integration and crucial for meeting the region's financial needs, but noted this had been dropped from IED's priority areas. The member indicated that finance is one of five core areas but noted that IED's report discusses little about finance, mostly only on SME finance, and that priority should be given to financial sector reform and policy dialogue. IED noted that the report selectively focused on areas of interest to ADB's strategic agenda drawing on evaluative evidence.

Knowledge

14. DEC noted IED's recommendation that ADB should not limit its knowledge work to areas in which it provides financing and that ADB should enhance knowledge activities to become a knowledge bank, for example in areas such as social protection. The DEC Chair noted that innovation and value addition are critical differentiating factors necessary for ADB's success in the future, since funding is not the only most important element for Upper Middle-Income Countries. He supported sharing of relevant knowledge and experiences among DMCs in the form of South-South cooperation, where ADB may innovatively play the role of broker in a cost-effective way. A DEC member agreed that ADB should become a knowledge bank, but should not become a knowledge institution like the OECD.

Climate Change, Environment and Resilience

15. DEC was pleased to note that ADB has increased its investments in environmental sustainability and climate change since the launch of Strategy 2020. A DEC member indicated that efforts must continue on sustainable transport since transport is not only a major cause of CO2 emissions but also constitutes a large share of ADB's infrastructure investments. A DEC member supported mainstreaming disaster risk reduction in operations, but sought clarification as to what exactly this would entail in operational terms. Another member suggested that in addition to climate change adaptation and mitigation considerations in projects, ADB could provide cutting edge leadership to ADB's clients and consider working in areas where it has not ventured before. DEC members agreed with IED's recommendation that investments in disaster resilience ought to be a major priority, depending on the DMCs' needs and priorities, rather than a niche area in ADB's work.

Private Sector Development

16. A DEC member supported the proposal made by IED for strengthening inclusive business operations but noted that if ADB is to reach its target of 50% of private sector operations by 2020, there must be a tighter collaboration between PSOD and regional departments regarding how to reach that target.

Review of organizational structure

17. Some DEC members did not agree with IED's view that ADB needs to review its organizational structure, which IED perceived to be an underlying factor in the fragmentation of skills and the perceived "silos" in the organization. A DEC member considered that the regional set up had served ADB well and did not require a major reorganization. Another member suggested that it may be better to focus on making the current system work by sharing staff across departments and strengthening Communities of Practice (COPs). Another member supported further decentralization done in a differentiated manner, based on the situation of the respective developing member country (DMC) and of the RM.