MANAGEMENT RESPONSE TO THE 2018 ANNUAL EVALUATION REVIEW

On 27 March 2018, the Director General, Independent Evaluation Department, received the following response from the Special Senior Advisor to the President on behalf of Management:

A. General Comments

1. The 2018 Annual Evaluation Review (AER) synthesizes the main findings of evaluation studies conducted by the Independent Evaluation Department (IED) in 2017. It is supplemented with a special chapter analyzing the design and preparation factors influencing efficiency and sustainability and concludes with a review of recommendations implemented. Management has earlier responded to the individual studies. In this response, Management focuses on the analysis in the special chapter and the four recommendations.

2. Management acknowledges the noticeable improvement in the 2018 AER, compared to the previous years. It is more accessible and user friendly. It serves as a better communication tool. Management appreciates IED taking close interest in consultation with ADB departments, in the course of the 2018 AER preparation.

3. The special chapter on the influence of design on efficiency and sustainability shows the substantial efforts undertaken by Management to improve these two success criteria and presents some informative findings. Management wishes to point out that the AER could have highlighted two key factors that limit the value and validity of the statistical findings:

   i. The statistical analysis artificially separates design from implementation. Many issues arise during implementation that affect efficiency and sustainability. While this is recognized as an area for future work by IED in para. 158, the main focus of the chapter is effectively weakened by not considering the negative influences on efficiency and sustainability in a comprehensive manner.

   ii. The report could have made it clearer to the reader the caution required in interpreting the findings of the analysis. Due to potential technical issues, including measurement and endogeneity, the results of the survey should have been more strongly qualified in the Evaluation in Brief, Executive Summary, and the special chapter itself.

4. The analysis seems simplistic and stops at the variables themselves, without going for a deeper understanding of the other underlying factors at play. For example, one of the “significant variables” found on improving project efficiency is delegation to resident missions. This appears to mistake correlation for causation; often, those well performing projects get delegated to resident missions. The presence or absence of a project preparatory technical assistance (PPTA) may actually indicate different types of ADB assistance. The AER could have examined whether the driver of performance is the availability of PPTA or in fact, the different types of projects that PPTA may or may not have been provided for. The finding that projects with a mid-term review (MTR) were more likely sustainable also stops short of deeper understanding of why a project would or
would not have a MTR. This and other truncated analyses could lead to simplistic notions that ADB can correct efficiency and sustainability shortcomings, by supporting single component, low environmental risk projects in rural areas with mandatory MTRs. In short, many of these findings are superficially interesting, but not deeply informative or clearly actionable.

5. The special chapter also provides a comprehensive review of the substantial reforms undertaken by Management to improve overall performance, supplemented by staff interviews. However, the explanatory power of these changes vis-à-vis rising success rates is not well understood or communicated. Given the typical implementation period of seven years, coupled with almost two years to prepare a completion report, only reforms undertaken before 2010 can realistically have improved the reported success rates. The report could have highlighted the fact that the effects of significant reforms undertaken in the last five to seven years are still to be realized.

B. Management Response to the Recommendations

6. Recommendation 1: ADB should seek opportunities to integrate social sector work and operations alongside hard-infrastructure sector operations in countries, through country partnership strategy (CPS) planning and design processes, in line with the thematic approach that IED has recommended for ADB’s strategy going forward.

7. Management agrees. Integrated solutions already feature prominently in the proposed Strategy 2030. We have now seen initiatives in several regions adopting integrated approaches to program and project financing. After the Strategy 2030 is approved, ADB will work more systematically with client countries and other development partners to program, plan, develop, and implement integrated solution operations.

8. Recommendation 2: ADB should improve operational efficiency by continuing with ongoing business process reforms, initiating new reforms to respond to context dynamics, regularly reporting on their progress, and learning from the analysis of significant factors affecting efficiency.

9. Management agrees. Management has been implementing business reforms on a systematic basis over the past decade. More recently, since the Mid-term Review of Strategy 2020, Management has undertaken reform measures in various areas, including procurement, technical assistance, and human resources. New business process reforms will be proposed in the Work Program and Budget Framework 2018–2020. In addition, under the proposed Strategy 2030, Management will pursue a modernization of its business processes by taking advantage of available technology to increase its operational efficiency and reduce the time for preparing and administering loans and technical assistance projects without compromising quality and integrity.

10. Recommendation 3: ADB should improve the sustainability of projects and their outputs and outcomes by systematically covering sustainability measures in project design documents.
11. *Management agrees.* Management has undertaken many steps to address sustainability challenges by strengthening project design and monitoring, supporting capacity development and knowledge sharing. This is to recognize that sustainability has many dimensions—operational, financial, institutional, social and environment. The effect of these changes on sustainability rates has yet to be assessed. Management will review possible solutions to integrate sustainability measures into project design documents and propose changes by the end of 2018.

12. **Recommendation 4:** ADB should continue strengthening the Management Action Record System (MARS) process to ensure that assessments of actions go beyond their direct outputs and report the outcomes of implementing the evaluation recommendations as well.

13. *Management does not agree.* Management will continue to work with IED to improve the effectiveness of IED recommendations, including enhancement of MARS. However, there are three issues with the recommendation that prevent Management from agreeing. Firstly, an “outcome” is not included in many recommendations and has to be inferred. Secondly, there is often a significant time lag between actions, outputs, and outcomes. For example, in recommendation 3 above, if the outcome is the eventual sustainability of projects, this will not be measurable for 8-10 after the action. Using good practice examples from comparator organizations, Management endeavors to complete and close all actions within three years of their formulation moving forward. This will ensure that action plans remain relevant to the changing context. Thirdly, many factors contribute to the achievement of project outcome. Further assessment will be in order to inform about the effectiveness of actions. For example, project sustainability may rise, fall, or remain constant for many reasons other than improving project design documents. For these reasons, Management finds the recommendation impractical.