On 28 March 2022, the Director General, Independent Evaluation Department, received the following response from the Director General, Strategy, Policy and Partnerships Department on behalf of Management:

I. General Comments

1. Management thanks the Independent Evaluation Department (IED) for preparing and sharing a comprehensive report on the 2022 Annual Evaluation Review (AER): Fragile and Conflict-Affected Situations and Small Island Developing States. The AER provides analyses on the performance of ADB, Management action plans and includes a special chapter on fragile and conflict affected situations (FCAS) and small island developing states (SIDS) which is timely as the pandemic is expected to aggravate existing drivers of conflict and fragility in FCAS and SIDS.

2. Management would like to offer the following observations on the report.

3. AER format and content. Management supports the approach of the AER without recommendations. Management commends IED for making the AER a publication that complements other IED evaluations which already provide many recommendations. Management believes that focusing the AER on issues and lessons learned will foster a more open and collegial dialogue on learning and improvement.

4. Trend Analysis. The AER conducts trend analyses for project performance by comparing to earlier periods (such as 2012-2016). Management would like to highlight that the evaluation of completed projects are subject to a significant time lag, given that projects being assessed are in fact formulated at a much earlier time. Reforms that have been made in terms of project design, implementation and monitoring often times may not be reflected in the projects being evaluated. As such, Management is interested to understand the context for the trend analysis, specifically on whether ADB can effectively draw lessons from completed projects to inform on current realities of projects under implementation.

5. FCAS and SIDS classification. The thematic chapter highlights the fact that it is not evaluating the ADB FCAS and SIDS Approach (FSA), but rather providing lessons to improve the implementation of the FSA. The report states that “ADB’s FCAS classification system focuses on a binary categorization of countries rather than a nuanced understanding of institutional and socioeconomic fragility and of the conflict risks that many developing member countries (DMCs) face, regardless of whether or not they are classified as FCAS and/or SIDS.” However, a key objective of the FSA is to understand the nuances of fragility and conflict and help strengthen the approaches, design, and application of the current FCAS classification system. Further, it should be noted that (i) the FSA already recognizes: (a) FCAS with active conflict; (b) DMCs classified as fragile (but not because of active conflict); (c) DMCs with subnational conflicts or fragilities; and (d) SIDS facing shared challenges and fragilities, all of which are repeated as suggestions in the report; and (ii) ADB is currently working with other MDBs to develop an updated MDB harmonized approach to FCAS classification.

6. Differentiated approach for FCAS and SIDS. While Management agrees that FCAS and SIDS need differentiated approaches, Management would caution the suggestion of the report that “it would help ADB to identify flexibilities, exceptions or alternative measures suited to specific fragile and conflict environments (such as those concerned with procurement, financial
management, and reporting requirements). For FCAS and SIDS, weak governance and poor capacity tend to increase inherent and control risks. A differentiated approach for FCAS and SIDS does not mean compromising ADB fiduciary or compliance requirements, but rather identifying and implementing procedural flexibilities. Applying differentiated approaches requires country-specific approaches to develop, implement, and monitor a robust risk mitigation process, while providing sustained capacity building and engagement toward long term sustainability and enhanced governance.

II. Response to the Issues and Lessons

A. Performance of ADB Operations

7. Management recognizes that the building blocks of performance are multifaceted, including project readiness, safeguards compliance, staffing, executing agency capacity, and portfolio administration. In turn, Management is taking a multifaceted approach to improve project performance, namely: (i) implementing upstream quality control by adhering to country-specific project readiness filters; (ii) conducting detailed risk assessments up front; (iii) familiarizing ADB procurement framework and modality to counterparts and contractors; (iv) addressing all land acquisition and resettlement plan well in advance of contract award; (v) rationalizing outposted international staff; (vi) engaging more frequent dialogue with government authorities including bi-weekly focused project level portfolio meetings; and (vii) continuously improving in monitoring systems such as the eOperations.

8. Management has strengthened the monitoring and review processes through the introduction of the 2021 ex-ante development impact framework pilot that assesses all private sector projects against their potential for market-moving effects (or beyond the project effects). This is expected to enhance the focus of the transactions on contribution to private sector development and strengthen results monitoring.

B. Implementation of IED Recommendations

9. Management agrees that additional effort is needed from both sides to narrow the gap between implementation and validation of actions. Management is encouraged by the increased validation of fully implemented actions, up from 33% in 2020 to 63% in 2021. The action plans on accepted recommendations are guided by the management responses and is developed in close consultation with IED to ensure that actions are verifiable with clear indicator selection and baselines. Both Management and IED teams have been making efforts to avoid subjectivity in self and independent- evaluation of the action plan implementation. Moving forward, Management will continue to work with IED on consensus-building and an agreed validation approach to ensure that the validation process is aligned with these mutually agreed actions and indicators to make the validation process objective, transparent and well-understood.

C. Assessing ADB Engagement in FCAS and SIDS

10. Management notes that the report highlights that "ADB and other multilateral development banks tend to place greater strategic emphasis on active conflict in FCAS than long-term institutional fragilities in SIDS." The FSA clearly distinguishes the need for differentiated development responses and the adoption of tailored approaches adapted to specific FCAS and SIDS contexts. Its three pillars aim to improve assistance not only in FCAS but also in SIDS. The FSA Action Plan for 2021-2025 covers both FCAS-classified DMCs and SIDS, and its results framework tracks specific indicators for both FCAS-classified DMCs and SIDS, thus demonstrating significant attention to both conflict and fragility. Furthermore, the Pacific Approach 2021–2025
lays out the significant emphasis by ADB on resolving the challenges of long-term institutional fragilities in SIDS. The FSA especially recognizes SIDS as a distinct group of DMCs with specific vulnerabilities. An updated ADB FCAS classification system will further support nuanced responses. Regional departments and their frontline staff at resident missions are cognizant of the distinct nature and characteristics of SIDS, and project processing teams work hard to be responsive, including on the ground.

11. **Management fully agrees** that donor collaboration is needed to “support long-term capacity and governance reforms and timely humanitarian assistance in FCAS and SIDS”, and that no development organization can single-handedly address all challenges in DMCs. Management would like to highlight the effort being made to increase in the number of agreements between ADB and United Nations (UN) agencies to date. For example, in a new project in Afghanistan, UN agencies alone are implementing project activities, and the Central and West Asia Department (CWRD) has been working to align ADB-UN procedures to accelerate project implementation. The proposed Myanmar project has similar implementation arrangements. The Pacific Department (PARD) coordinates with development partners in undertaking reforms, including in public financial management and private sector development of the SIDS in the Pacific. PARD provides timely assistance in cases of post-disaster budgetary needs under its Contingent Disaster Financing arrangements in ten Pacific DMCs, and works with UN agencies to support rapid vaccine procurement and distribution. In addition, Management notes that donor collaboration can be slowed by differing budget cycles among organizations and requires extensive planning prior to on-the-ground collaboration to align procedures among collaborating entities.

12. **Management fully agrees** that ADB should further develop and include “conflict- or fragility-sensitive narratives and indicators in country and project results frameworks, which can help ADB better track operations performance and results in FCAS and SIDS.” In 2021, Management strengthened the methodology and performance standards for results frameworks, including Corporate Results Framework (CRF) indicators under the FCAS and SIDS Approach. At the same time, Management believes that in addition to the efforts at country and project levels, a context-sensitive evaluation approach should be developed by IED to help understand the results of ADB-financed interventions. The ADB evaluation criteria of relevance, efficiency, effectiveness, and sustainability manifest differently in the context of FCAS and SIDS, and the existing framework can be strengthened to adequately measure progress and results.